



**COOPERATIVE HOUSING FOUNDATION**  
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# ***CONDOMINIUM ASSOCIATION TRAINING MANUAL***

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## ***I What Is a Condominium?***

### ***II Legal Statutes Related to Condominium Operations***

*A condominium is an apartment house or complex of dwelling units of which some or all are individually owned, each owner receiving a recordable deed enabling him/her to sell, mortgage, exchange, or lease his/her unit independently of the owners of the other units in the building. The building, those facilities in the building that serve common purposes, the equipment and the site are the common property of the residents. If the adjoining plot of land was obtained by the co-owners to use, they have right of use and not ownership rights.*

*In a condominium, individual and common property constitute a unity and are inseparable. There is no individual property without a share of the common property, and there is no common property, or a share of it, without individual property.*

*Real estate registration states and records the particular legal structure of the condominium. The condominium registry sheet provides information on the whole condominium, that is, the units in the building, the premises in common property, and the plot. The registry sheets for the condominium separately register the privately owned apartments in the building, other recorded premises (e.g., shop, workshop), and the share of the common property that belongs to each piece of property.*

*A condominium is a legal term. It is not an independent real estate unit. A condominium as a unit cannot be bought, but all the apartments in a condominium might be bought by a single person. The condominium as a separate registration unit continues to exist, and cannot be abolished unless a legal statute on condominiums stipulates it. A condominium is not a legal person, but a special unity of individual and common property, subject to rights and liabilities by the co-owners constituting the ownership community.*

*To understand the operation of a condominium, it is necessary to understand the concepts of common and individual property.*

### ***III Common Property***

*Common proprietorship with regards to condominiums always applies to an indivisible whole which is not expressly owned but to which the right of use and the responsibility of maintenance is shared by the co-owners. The distribution of these rights and responsibilities is determined by the ownership shares of each individual co-owner. In practice, a share determines the distribution of rights and obligations among the co-owners (e.g. when one third share is owned, one third of the income is due to the owner, but at the same time,*

*he/she is to contribute proportionately to the costs required by the maintenance of the real estate.)*

*The rights accorded to the co-owners are the same. Each owner's right applies proportionally to the whole of the common property and varies according to the number of shares that the owner has. State or local government property has no priority over private property.*

*Legally, each owner is entitled to own and use common property, but none of the owners may exercise this right to the detriment of the right and legal interest of the others. Law and practice determine these communal rules by providing the opportunity for the co-owners to regulate the ownership and use of common property among themselves. Failing agreement, the co-owners may apply to the courts to regulate the use of common property. External parties tend to regard joint property as a singular entity.*

*Any co-owner whose usage of the common area exceeds his/her own share is liable to pay excess usage fees. For instance, after condominium conversion, the cellars, the store rooms, the washing rooms can be considered common property. However, if one or several owners continue to have exclusive use of these areas, they should pay additional fees to the condominium for those privileges.*

#### ***IV Individual or Exclusive Property***

*In the case of individual property (usually an apartment), the individual owner is entitled to all the rights Hungarian laws ascribe to ownership. These include the right of ownership, use, utilization and disposal. Apart from these titles, the owner is entitled to the protection of property ensured by law (e.g. ownership claims have no statutory limitations, property safeguards, real estate title requirements, etc.). The legal distinction between common and individual property does not exclude joint ownership within an individual apartment. A common example would be a married couple owning an apartment jointly. In keeping with the nature of joint property, the share of the apartment due to the husband and that due to the wife must be stated (e.g. 50/50 proportion).*

#### ***VOperational Conditions Deviating from Foundation of Condominium, from Amendment or Intervention of Legal Rule***

*The Condominium Act (Act XII of the year 1924, hereinafter referred to as "the Act") and Statutory Rule No. 11 of 1977 regulate the legal status, main operational conditions and organizational conditions of condominiums (operating rules). In certain condominiums, however, operational conditions may change depending on who founded them or on legal or functional rules that have been adopted in the operation of these condominiums.*



*1 Changes, Divergences of Condominium Operational Conditions created or founded upon the basis of Act XII/1924*

*In cases where condominiums were created in agreement with the Act, a portion of the apartments, non-residential premises, commercial spaces, workshops, and other rooms originally registered as common property were nationalized under Statutory Order No.4/1952. Through nationalization, these condominiums went into mixed ownership (the real estate shares formerly in common property went over into mixed, partly state-owned, partly resident-owned property).*

*In other cases, the amendment to the Foundation Document never took place. The premises in common property were allocated, apartments were shared, and extensions were construction without proper real estate registration. This made it very difficult to determine the number of individually owned property, state owned property, and common property and produced a situation where the actual number and conditions of the apartments/premises differ from those listed on the Real Estate Register. As a result, calculation of common expenses for condominiums with no amendment to the Foundation Document became next to impossible. To rectify this situation, the Foundation Document needs to be re-amended and re-registered to reflect changes in the actual situation. The management of state-owned property influenced, and still influences, building operational issues that are not regulated legally.*

*a Condominiums Built Privately Through Building Associations*

*These condominiums devised their own operating principles often including a principle of contractual freedom (usually sub-leasing).*

*b Co-operative Ownership Apartments*

*Ownership rights for co-operative apartments were not part of the general legislative movement to privatize the real estate market. Instead, an independent policy decision concerning cooperative apartments was made by the Housing Administration. The ownership of housing co-operatives was organized in a very quick and pressing manner. The purchase of a cooperative apartment automatically gave the legal status of co-operative membership. In practice, co-operative apartments are currently subject to the same rules applicable to the sale of condominium apartments. The ownership of cooperative apartments are recorded under a different legal ownership status, while common property in cooperative buildings is considered to be owned by the co-operative as an organization.*

*cOther issues*

*There are certain cases in which ownership was not established by the will or agreement of the co-owners but by a unilateral decision of the National Savings Bank or the local government. The apartments in these buildings were intended for freehold sale. At the time of sales there was only one owner--the state or local government. The Foundation Documents for these condominiums (especially those of most condominiums created via alienation) contained only very general regulations, few specifics, and certain peculiar features of use that had evolved over several decades of state ownership. In addition, often the data included in the Foundation Documents (apartment area, etc.) were erroneous, owing to incomplete technical or legal work.*

**2Foundation Document Errors**

*When state or local government apartment buildings were created, subsequent division of the occupied land often took place. For example, two buildings registered as separate real estate entities frequently have a single common public utilities network. Due to lack of financial resources, an independent utilities network for each separate building was often not developed. In such cases, the Foundation Document often does not usually speak to this issue and utilities are routed primarily through one building. The owners of the two separate buildings must contractually agree on a legally binding procedure whereby the owners of the building without the utility lines are to contribute to common expenses and to any unmeasured consumption.*

*The status of property lines also tend to be unclear, especially if the adjacent land belongs to the state. The matter is even more complicated if auxiliary buildings have been built by the condominium (e.g., garages.) In some cases, such auxiliary buildings may only be accessed from the plot of a neighboring building. Right of use issues tended to be ignored and must now be addressed in the Foundation Document.*

*In the case of "twin" buildings, the Foundation Documents were often drafted by different persons or agencies. Often, the maintenance, renovation and the sharing of relevant costs of common building parts were not adequately specified.*

*In certain cases, several independent buildings were erected on a single plot of land whose maintenance, renovation and operations **can** be separated. Often times, the Foundation Document was devised in view of the entire plot of land, determining the proportion of common property belonging to an apartment or other independent real estate unit. Hence, it may occur that the replacement of a ceiling or the renovation of roofing also burdens the owner of an independent secondary building or garage.*

*Constructing buildings independently enables their individual owners to carry out the maintenance or renovation of building units separately, with the costs also being borne separately.*

*There are also cases where an auxiliary building is heated from a jointly owned portion of a residential building. The Foundation Document may have failed to regulate the sharing of heating costs from a single common room (boiler-room).*

*The above listed occurrences caused no problem in use and maintenance as long as the buildings were state owned. Privatization, however, changed the situation. Given that all condominiums try to manage themselves as economically as possible, bearing only real costs, and/or charging one another for extraneous costs, there are sometimes problems. The relation among neighboring buildings can be arranged by the agreement between the co-owners of the two buildings or, failing agreement, in court. Legal settlements may include the creation of leasing arrangements, the separation of rights of usage, and the imposition of cost sharing arrangements.*

*A frequent error in the organization of condominiums is that the air raid shelter has been included in the common property without the consent of the civil defense authority. Similar partial invalidity of the Foundation Document may be caused by including the apartment of the doorman after September 1, 1991.*

*If there is a problem within a condominium itself, the co-owners can resolve the conflicts by a General Assembly resolution unless it violates the Foundation Document. Should the Foundation Document need amendment, a separate document is needed to be signed by all co-owners and submitted to the Real Estate Register authority. Failing agreement, only a legal settlement is possible.*

### **3Legal Operating Considerations**

*The existence and operation of a condominium is not isolated from its surroundings. There are acts or requirements based on legal customs and every day practice that may influence the running and management of a condominium and that must be taken into account. These relations and regulations affecting the life of a condominium include:*

#### *aNeighbor's Rights*

*The possession and use of two adjacent real estate entities can produce several points of friction. There are certain rights enjoyed among neighbors including the following:*

- The owner is obliged to refrain from any behavior that might unnecessarily disturb others, especially the neighbors, or might jeopardize the exercise of their neighbor's rights.

- The owner may keep the fruit fallen from branches reaching over his/her plot, if their owner does not pick them; cutting branches and roots reaching into one's plot is not justified unless they hinder the normal use of the plot and the owner of the tree has failed to remove them upon request.

- The owner may use the neighboring land in return for compensation, if it is necessary for construction, demolition, reconstruction or maintenance of the building on his/her plot.

- The owner must respect legal arrangements that have been established for special purposes between neighboring buildings.

- If the owner needs to use the others' property temporarily, s/he must obtain the Right of Use or restrict his/her proprietary right in other ways. In such cases the other owner is entitled to compensation corresponding to the frequency and type of use.

### *bLeasing Rights*

*A frequent occurrence in condominiums is the leasing or rental of an apartment. That means that the owner of the apartment rents the apartment to another and does not inhabit the apartment him/herself. The person renting the apartment (the lessee) uses the apartment, exercises the rights laid down by the law or expressed in the lease. As long as the owner and the lessee are on adequate terms, this peculiar legal relation does not disturb the life of a condominium. Should the relation between the owner and the lessee deteriorate, legal provisions replace the agreement between them. According to the law, the lessee is entitled to occupy an apartment owned by someone else, use and utilize it.*

*The lessee is to bear the burdens of maintenance, except for extraordinary repairs, reconstruction or major renovation. He/she bears the responsibilities related to the use of the apartment and is obliged to cover the rates and taxes required for the operation of the apartment.*

*Although the ability to lease is normally recorded in the real estate registration*

*process, only the actual owner is a member of the condominium. Relations between the lessee and the owner are not the concern of the condominium. Even if the General Assembly of owners understands that the costs are borne by the lessee and not the co-owner (shared costs, etc.) under the leasing arrangement, care must be taken when maintenance or other costs are imposed in excess of the amounts established at the time of the leasing arrangement and which thereby might burden the owner. Although the owner is generally the one invited to the session of the General Assembly, the lessee may act as his representative.*

#### *cRight of Use*

*Right of Use is a title similar to leasing and may be established even in cases where an actual lease cannot be or has not been established. Right of Use may refer not to a share of property but to the property as a whole, or for that part which is physically bordered and stated as independent. Right of Use includes the right to collect benefits, but usually asserts that this right must not be surrendered to others.*

#### *dReal Servitude*

*During the establishment and ongoing operations of condominiums, there are frequent cases where property lines were incorrectly established. An example is a plot of land owned by one condominium that can only be accessed through a plot owned by another condominium association. Similarly, public utilities are often routed across plots belonging to more than one condominium. These rights of usage should be recorded in the Real Estate Register. Real servitude states that the owner of a certain plot may use another's plot to a limited extent, or may claim that the second owner should refrain from certain, otherwise entitled to, conduct.*

#### *eLegal Remedies*

*As pointed out above, ownership does not mean unlimited power over a piece of property. It is limited by the bona fide and fair exercising of neighbor's rights. Most conflicts are caused if the owner of the apartment has the right to let it out for any purpose other than residential without the consent of the co-owners. The self government may do the same when utilizing non residential tenements.*

*Should an owner, a tenant, or any other user displays conduct which disturbs*

*the neighbors unnecessarily (e.g. noisy and overbearing behavior, making sounds, etc.), the person having suffered the grievance may lodge a claim with the Office of the Mayor requesting the restriction of the behavior or the hours of operation of a particular business. In the event of an unfavorable decision, s/he may resort to legal action.*

*In addition to the legal protection of neighbors' rights, there are legal mechanisms by which individual owners in the condominium can contest the resolutions of the General Assembly. Any of the co-owners may contest the resolutions of the General Assembly if such resolutions violate any law, any provision of the Foundation Document, or infringes upon the rightful interest of a minority. A frequent reason for contesting a General Assembly resolution is that a meeting was not called according to the normal procedure or that the General Assembly had no quorum when the resolution was adopted.*

*The operation of a condominium may give rise to various legal proceedings. The most frequent of these are cases of payment summons with regards to common expenses, the procedure for amending the Foundation Document, and/or the proceedings for reporting liability.*

*Finally, there may often be proceedings against the condominium as a whole. For example, damage suits can arise where compensation must be paid in the event that an object that falls from the building, injures somebody or damages property. In such cases, the co-owners are jointly responsible for the damages.*

#### *fProtection of Property*

*The Protection of Property is a special legal tool for safeguarding the rights of owners. The Protection of Property is due not only to the owner but also to any lessee or sub-tenant. Should the owner or lessee of an apartment let the apartment or give it to someone else for use, the tenant or user is entitled to the Protection of Property even against the owner. This applies only to the extent to which the right is due the tenant by contract.*

*According to the law, the owner is entitled to Protection of Property if s/he is deprived of her/his property without legal grounds or is disturbed in possessing the property (trespass). The owner may ward off the attack on his/her property on his/her own authority to the extent necessary for the safeguarding of the property.*

*If someone is deprived of her/his property or disturbed in possessing it, s/he*

*may apply to the competent authorities (Mayor's Office) within a year for the restoration of the original state or the resolution of the trespassing violation.*

*The resolution by the competent authority restores the original state of the property and enjoins the intruder to desist in trespassing. It rejects an application when it is obvious that the person applying for Protection of Property is not entitled to possess it, or s/he was obliged to tolerate the disturbance of her/his possession. (For example, the tenant shall put up with the owner's occasional checking of the use of his/her apartment, or if the owner wants to sell the property, with the buyer's viewing of the apartment.)*

*The resolution by the competent authority pertaining to possession shall be implemented in three days.*

*Should someone find the resolution of the competent authority detrimental, s/he may solicit the court to change the resolution within 15 days of the receipt of the resolution.*

*The court decides on the dispute on the basis of entitlement. The owner can directly turn to the court, not only to cure the trespass but also if the entitlement is disputable. If the aggrieved party did not, or failed to, resort to the procedure of the competent authority, s/he may go directly to court.*

## ***VI The Management of the Condominium***

### ***A The Foundation of the Condominium***

*By registering the condominium's Foundation Deed in the Real Estate Register, the condominium legally exists. However, the actual operating procedures are to be created at the founders' meeting. In case a former construction community has been transformed into the condominium's community, the Foundation Deed involves legal relations formulated and agreed by the constructors and the co-owners. In such a case, the creation of foundation and operation procedures are less problematic than in the case of a condominium formed through privatization.*

#### ***1 Founders' meeting***

*For condominiums formed through privatization, the founders' meeting is to be convened by the former owner (such as the State) of the building, or by a manager acting on his/her/its behalf. The objective of the founders' meeting is to inform the co-owners about the legal regulations concerning condominiums, the rights and duties of the owners, and the detailed content of the Foundation Deed.*

*Furthermore, the General Assembly has to create the conditions for the actual operations of the building, deciding on the following matters:*

- a The election of a Common Representative or an Executive Committee;*
  - b The election of an Auditing Committee;*
  - c The budget plan establishing financial operating procedures;*
  - d The establishment of a Renovation Fund or other means of funding renovation;*
  - e The management of the condominium;*
  - f The transfer of relevant documents to the condominium including:*
    - The Foundation Deed;*
    - Documents of technical design;*
    - Records on official revision concerning the equipment of central buildings*
    - Warrantees and guarantees;*
    - Contractual agreements concerning apartments in joint ownership;*
    - Lease contracts of premises or areas in joint ownership (if they have been utilized) or documentation on the termination of the contract;*
    - A statement on flat rate contracts on apparatus or machinery.*
- The contracts are to be terminated by the former manager; A statement for the public utility*



company about the transfer of the invoicing of the public utility services to the condominium's account;

•A statement about the termination of the contracts of the janitor, the cleaner, the elevator attendant and the stoker by the former manager.

*Any new contracts are to be made by the new Common Representative.*

## ***2The Transfer of the Condominium's Ownership***

### ***aBuilding Survey***

*In the course of transferring the building to the condominium association, the building should be surveyed and its general condition should be recorded. The location of the switchboards and the taps of the main lines should be marked.*

*Before approving the transfer of the building, all necessary technical equipment (central heating, elevator) should be examined by a technician prior to sign-off. Those present should make sure the machinery is safe and is in good working order. The maintenance diary of the equipment should be handed over.*

*The water, electricity and gas meters should be read. Access to the meters and whether the meters are accessible from a jointly owned area should also be examined.*

### ***bKeys and Equipment***

*The transfer of premises and areas in joint ownership should be transferred together with their keys. In case any of them are being illegally used, the real estate manager should arrange the eviction of the illegal tenant.*

*When transferring inventory items, the equipment listed in the building's inventory should be handed over to the Common Representative.*

## ***3Transfers - New Contracts, Registrations, Opening of New Accounts***

### ***aContracts***

*The former manager should terminate the contracts for services which have been provided for the condominium. The new Common Representative has to make the new contracts. New contracts should include: water, electricity and gas supplies, garbage can lease, waste removal, the checkup of chimneys,*

*maintenance contracts (elevator, central heating, etc.) contracts of employment (janitor, elevator attendant, cleaner, stoker, etc.)*

### ***bRegistrations***

*Tax and Social Security Registration forms must be completed and filed at the tax office and social security office.*

### ***cBank Accounts***

*Separate accounts for management, Renovation Fund, and heating should be opened.*

*The management of the condominium can begin after the above questions are settled.*

## ***BThe Condominium's Organizational Structure***

### ***1The Organization of the Condominium***

*The condominium is a non-profit organization without a legal personality and with independent management. The condominium is not a legal entity and is not legally competent and not liable to be sued. Only the co-owners, individually, can be sued. However, the condominium is entitled to sue, for example, a co-owner having a payment default.*

*The condominium performs as an independent manager, and must cover its expenses from the income accrued to it and deposited in its independent bank account. The condominium has to have its own tax identification number and social security number. The condominium is not profit-oriented, but self-supporting. Its basic tasks are the maintenance and operation of the building in order to preserve or increase the property value.*

*The condominium consists of the members of the condominium. An outsider becomes a member of the condominium by signing the sales contract and entering it into the Real Estate Register. Anyone coming into property in any way (e.g. inheritance, extension, donation, etc.) may become a member of the condominium.*

*Any new member entering a condominium is automatically bound by the Foundation Document and all the rules passed by the General Assembly that are in force (e.g. rate of common expenses, ways of payment, rate of Renovation Fund.)*

*When a new co-owner enters the condominium, the change is registered by the Common Representative and Executive Committee with the Real Estate Registers, both of whom will inform the co-owners at a General Assembly session thereof. There is no need for a special vote by the General Assembly.*

## ***2The Organizational Structure of the Condominium***

*The condominium consists of privately and jointly owned parts. The cooperation of the co-owners is necessary for the management and functioning of the real estate.*

## ***3Organizational Structure and Responsibilities***

<i>General Assembly</i>	<i>Common Representative/Executive Committee</i>
<i>Representation</i>	<i>Supervising</i>
<i>Implementation</i>	<i>Consulting</i>
<i>Decision Making</i>	<i>Proposing</i>
<i>Reporting</i>	<i>Reporting</i>

## ***4The General Assembly***

*The General Assembly is the condominium's supreme authority which decides upon its most important matters. This democratic forum ensures the corporate character through co-owners' chance to take part personally in the course of the decision-making. The General Assembly is convened at least once a year (unless an unexpected event calls for an extraordinary meeting). A Common Representative or an Executive Committee is to be elected to manage the day-to-day affairs of the condominium.*

## ***5Common Representative or Executive Committee***

*Between sessions of the General Assembly, the condominium is managed by a Common Representative or an Executive Committee. The Common Representative or Executive Committee is elected by the General Assembly. Accordingly, s/he is obliged to give a periodic reports to the General Assembly.*

## ***6Professional Real Estate Developer or Manager***

*In keeping with the guidelines worked out by the community of owners, the General Assembly may engage the services of a professional real estate manager to manage the operations of the condominium. A management contract is to be developed and engaged by the Common Representative or Executive Committee with the real estate manager. The Common Representative, acting under the prerogative of the General Assembly, supervises the performance of the professional manager, who is accountable to the Common Representative who in turn gives a report to the General Assembly.*

## **7Committees**

### *aAuditing Committee*

*The Auditing Committee supervises the management and the financial accounts of the condominium. The members of the Auditing Committee are elected by the General Assembly, to whom the committee gives an account of its activity. The Auditing Committee is not authorized to have any decision making powers.*

### *bOther Professional Committees*

*The activity of the Common Representative or the Executive Committee may be supported by other committees made up of co-owners. Such committees, may be elected for the supervision of a certain activity. For instance, the supervision of maintenance, the leasing of premises in joint ownership (determining the letting conditions, selecting the tenant, etc.). Efficient committees play an important role in the management of the condominium.*

### *cProfessional Services*

*From time to time, the condominium may have to employ experts. (e.g. a lawyer, a financial expert.) In this case, a qualified co-owner is appointed by the Common Representative or Executive Committee to report on the performance of the expert.*

### *dEmployees*

*The condominium may hire an employee for a specific full-time or part-time duty. The work of the employee or employees (e.g. cleaner, fireman) shall be supervised by the Common Representative or Executive Committee.*

### *eTradespeople*

*Contracting with tradespeople like electricians, plumbers, carpenters, etc. is the duty of the Common Representative or Executive Committee.*

#### *fThe Rights and Duties of the Co-owners*

*The owner enjoys both the benefits and responsibilities of ownership. If the condominium performs activities which generate income (e.g. leasing), all the co-owners are entitled to the profit. The co-owner is entitled to possess, use and utilize his/her property. S/he also has the right of sale of his/her unit.*

*Joint ownership is a duty as well as a privilege for the co-owners. The co-owners are responsible for the payment of maintenance and other costs associated with the property. These include the legal liabilities and operational expenses of running the condominium. In addition to the expenses, the co-owners have to cooperate for the sake of efficient management. Individual interests are subordinated to the vote of the majority, provided that it reflects sensible, justifiable management.*

#### ***CThe Representation and Management of the Condominium***

*The way of managing the affairs of the condominium chosen by the General Assembly largely depends on factors such as the number of apartments in the condominium, the size of the facilities belonging to the condominium, the services provided to the co-owners, the qualifications of members, the attitude of the members, their readiness to collaborate, and available financial resources. The condominium may contract with an expert or a corporation for its joint representation or for management. These tasks, however, may be performed voluntarily by the members. This latter solution is economical and provides on-the-premises supervision of the building. The condominium may call in the voluntary help of the members or employ an experienced expert, on a part-time basis, for the preparation of the month's financial report and other accounting related tasks. The condominium resembles, in many regards, a private enterprise. Its efficient management is a precondition for success. This entails the fulfillment of the following requirements:*

- The condominium shall run the facilities belonging to it both economically and efficiently in order to provide services in a uniform fashion to its members;*
- The condominium shall make an ongoing budget based on a realistic assessment of the future. The maintenance fees used to cover the present and future expenses are to be fixed at an appropriate level by the General Assembly;*
- The condominium is to firmly enforce the observation of adopted rules and*

regulations;

- *The condominium is to keep in professional contact with the main actors of its organization partners, such as the local government, independent entrepreneurs, etc.*

### ***D The Financial Management of the Condominium***

*The maintenance/management of the condominium implies expenses, such as the costs of services provided for the condominium (e.g. the building's cleaning costs, the costs of waste removal), public utility costs (gas, water-sewage, electricity), maintenance costs (elevator, central heating, boiler), checkup of chimneys, repair costs on the building and its equipment, administration costs, management costs, employees' wages, etc. The expenses are financed from the payment of monthly maintenance fees by the co-owners (shared costs paid monthly.) Any income derived from the condominium's leasing of common areas may also be applied to cover these expenses. The efficient management of the condominium is fundamentally determined by the volume of its incomes, which has a direct impact on the property value as well.*

## ***VII Management Related Legal Regulations***

### ***1 Government Decree No.11 of 1977***

*In the Hungarian legal system, the supreme regulation concerning the management of condominiums is laid down in Section 12 of the Civil Code concerning joint ownership, and in the Government Decree No.11 on condominiums of 1977. The main rules concerning the foundation and management of the condominium and the content of the Foundation Deed are set by Government Decree No.11. of 1977 .*

### ***A The Foundation Deed***

*The Foundation Deed, based on the local conditions of a particular condominium, includes the list of privately and jointly owned parts, the legal (internal) relations of the condominium's owners concerning the possession, usage and utilization of the joint property, and the way and extent of paying the shared costs. The Foundation Deed also determines the organizational structure of the condominium, (the General Assembly, the Common Representative, the Auditing Committee) the authority of the elected bodies, their decision making authority, their operation, their representative authority and the procedures for the settlement of debates.*

### ***BGeneral Assembly Resolutions***

*The yearly resolution of the General Assembly presents a short-term strategy, usually a one-year program of action, determining the objectives and financial plan for the condominium during a fiscal year. The General Assembly is authorized to pass resolutions containing agreements for longer periods concerning ownership. However, their validity does not require their inclusion in the Foundation Deed.*

### ***CRules of Operation***

*In addition to the Foundation Deed, or its supplement(s), the condominium may work out operational rules for the detailed regulation of internal relations. These operational rules and amendments should be accepted by the General Assembly. Operational rules are useful in regulating the following:*

- ***General Assembly:*** *Its authority, power of decision, and convening of the Assembly, the obligatory content of a General Assembly meeting, the announcement of the yearly General Assembly meeting;*
- ***Executive and Auditing Committees:*** *The definition of their responsibilities within the Executive and the Auditing Committees;*
- ***Information and Reporting to Co-owners:*** *Procedures to update co-owners on the state of bank accounts, requirements concerning the form and content of such reports, their frequency, the financial limit for individual transactions made by the Common Representative or Executive Committee, maintenance fees, and interest on overdue payments;*
- ***System of Supervision:*** *Technical, financial, accountancy, legal and other types of supervision;*
- ***Forms of Cooperation:*** *Regulating the flow of information between the Common Representative and the co-owners, the Common Representative and the Committees, the co-owners and the Committees;*
- ***Financial Activity:*** *Regulation of the right of cash withdrawal from the bank account and having petty cash on hand;*
- ***Procedures to be followed when private property is leased;***
- ***Regulations for tenants;***

- **Miscellaneous Management:** In case of a larger condominium (building estate, detached houses on a single lot) e.g. assembly of delegates, General Assembly with only a part of the members present, more than one budget, etc.;

### ***DThe Authority and Procedural Course of the Assembly***

*The decisions needed for the management of the condominium are made by the organs appointed by the Foundation Deed or by Government Decree No.11. of 1977 . The supreme body (exercising decision making authority) of the condominium is the General Assembly. The Common Representative or Executive Committee, the Auditing Committee and other committees (mainly in larger condominiums) formed for a special or definite task are subordinated to the General Assembly.*

#### ***1 The Composition of the General Assembly***

*The General Assembly consists of the members of the condominium (the co-owners). The co-owners have equal rights and their voting power is determined by their proportional ownership in the building, usually measured by square meterage owned. The rights of the co-owners are identical, they only differ according to their proportional ownership. That is the reason that certain co-owners with large ownership stakes may have decisive vote concerning the General Assembly's decisions, whereas s/he may appear to be in minority (regarding the number of people).*

#### ***2Participation of Co-owners at the General Assembly***

*The co-owners personally represent their ownership stakes at the General Assembly. In case the co-owners are unable to attend the meeting personally, s/he may be represented by someone else. This requires written authorization certified by two witnesses. The authorization may be valid for one occasion or it may be general. The authorization entitles the person to take part in the condominium's affairs and to take responsibilities in the owner's name.*

#### ***3Representation by Lessee***

*The lessee of the housing unit is not an owner or a member of the General Assembly, although s/he has certain limited rights and partial licenses. There is direct legal relation only between the co-owners. The lessee is in legal relation with the owner of the housing unit only, and not with the rest of the co-owners. However, taking into consideration that the lessee is supposed to cover the expenses related to use and management of the common areas, it often happens that the lessee represents the ownership stake at the General Assembly sessions. Such representation by the lessee*



*is only valid if the owner and the lessee have agreed on covering the expenses and the matters of representation, and submit this agreement or a substituting written declaration to the General Assembly. Based on the declaration, the lessee may be treated as a member of the General Assembly.*

#### ***4The Efficiency of the General Assembly***

*The efficiency of the General Assembly and the management of the condominium are substantially determined by the number of co-owners attending the session, the activities they perform, as well as their decision making skills. The execution of General Assembly resolutions is much more efficient if it is based on the personal decisions of the co-owners. Therefore, much attention should be paid to the organization of the General Assembly sessions.*

#### ***5Convening the General Assembly***

*The conditions regarding the convening of the General Assembly are set by Paragraph 1, Point 15 of Government Decree 11 of 1977. Accordingly, it is the Common Representative's or Executive Committee's task to convene the General Assembly. That is to be done at least once a year. In certain cases where the Common Representative or Executive Committee does not convene the General Assembly, it is necessary for the General Assembly to organize the meeting itself. To avoid such cases, Government Decree No.11. of 1977 entitles the Auditing Committee or, in case there is not one, any co-owner to convene the General Assembly for important or emergency matters. The criterion for convening such a meeting is one third consent of the co-owners.*

#### ***6Convening the General Assembly***

*It is done through written notice delivered to each co-owner. Written notice should be delivered in due time, usually eight days prior to the meeting, to each of the co-owners. In case of an extraordinary session, when no delay is acceptable due to the importance of the matter, this term of notice may be disregarded. Written notice must contain the exact date and location of the session as well as the agenda.*

#### ***7Conditions for the Quorum of the General Assembly Session***

*The General Assembly has a quorum whenever at least two thirds of the co-owners are present. Attendance is to be calculated in accordance with the ownership proportions and not by the participation rate. If such a properly announced General Assembly session does not have a quorum due to under representation, a second*

*session is to be convened. This second session always has a quorum regardless of its attendance.*

### ***8The Decision Making Authority of the General Assembly***

*Paragraph 14 of Government Decree No.11. of 1977 concerning condominiums regulates decisively those items upon which only the General Assembly is entitled to make decisions. This right cannot be transferred either to the Common Representative, Executive Committee or to any other committee. The fact that the preparation for such a General Assembly session is performed by the Common Representative or a committee does not contradict Government Decree No.11. of 1977.*

### ***9Two Types of Resolutions***

*The matters which require a 100 percent consensus according to points no. 5 and no. 21 of Government Decree No.11. of 1977 are the following:*

- *Termination of joint ownership;*
- *Modification of the Foundation Deed;*
- *Mortgaging the entire property; and*
- *Termination of condominium ownership.*

*These are the cases which require General Assembly decisions according to point no.14 of the Decree. The General Assembly makes such decisions by majority vote, which means that the decision of the General Assembly comprises the votes of the majority of the attendees. When counting votes, the ownership proportions are to be calculated.*

### ***10Renovation of Premises in Joint Ownership***

*The Government Decree No. 11. of 1977 is direct and clear with respect to the renovation of premises in joint ownership under the authority of the General Assembly. Therefore, a resolution by majority vote is regarded as necessary and valid. The importance of the latter lies in the fact that the previous condominium act of 1924 required a complete consensus in renovation matters. This regulation is often still applied, yet inadequately.*

### ***11Maintenance and Financial Responsibility of the Condominium***

*Ongoing maintenance does not necessitate General Assembly resolutions. Therefore,*

*the Foundation Deed sets the approval of the annual budget as subject to General Assembly resolution at the annual meeting. Accordingly, the scope of the work to be carried out and the projected cost of maintenance have to be estimated at that meeting.*

### ***12The Utilization/Possession of Premises in Joint Ownership/Allocation of Occasional Income***

*The General Assembly is entitled to determine the use of premises in joint ownership. In those cases where the owners renounce the use, the General Assembly may contribute to the lease. The lease conditions may be set by the General Assembly, but this right may also be transferred (along with its execution) to the Common Representative or to an appropriate committee. The same procedure is applied to advertisements and vehicle storage. In case the condominium has income due to such uses, the General Assembly decides about its allocation (e.g. decrease of the shared costs, advance savings for renovation works, etc.).*

### ***13Election, Payment and Resignation of Administrative Personnel***

*The Common Representative may be elected from among the co-owners, but an external third person may also be elected. S/he must be competent from both a professional and behavioral standpoint as well as having ties with a professional firm (e.g. limited company, company limited by guarantee, etc.). It is useful to elect the members of the Auditing and other professional committees from the co-owners, as their task is the supervision of the management (and thus the Common Representative.)*

### ***14Budget Acceptance and Financial Reports***

*Basically, the annual budget sets the corresponding year's economic strategy and the tasks to be carried out by the condominium. It also establishes the financial resources of the condominium and determines the maintenance fees to be paid by the co-owners.*

*The report on the accounts is basically a report by the Common Representative or Executive Committee about the management during the previous year. The acceptance of the report is a de facto approval of the Common Representative's or Executive Committee's management during the previous year. The analysis of the report offers a*

*chance to evaluate the performance of the Common Representative as well.*

### ***15Renovation Fund Resolutions***

*The condominium Government Decree No. 11 of 1977 ordained the establishment of Renovation Funds for condominiums. This government decree was nullified by Decree 33/1992 (29/5) of the Constitutional Court which transferred the right of the decision to the General Assembly. The compulsory quantity of the Renovation Fund is defined by the modified decree 10/1994 (30/6) of the Ministry of Finance.*

### ***16The Transfer of Authority of the General Assembly***

*In the event the condominium does not have Building Rules and Regulations, these matters become the concern of the General Assembly. The Assembly is also responsible for: setting tasks for the committees; establishing cooperation of the members; oversight of the documentation prepared by the Common Representative and the committees; supervising maintenance and renovation; providing financial supervision; and supervising the commission contract with the Common Representative.*

### ***17Legal Disputes Between Co-owner's and the General Assembly***

*A resolution of the General Assembly may be in conflict with the interests of a particular co-owner. The 16th point of the Government Decree No.11. of 1977 provides for redress in such an event. The repeal of a resolution of the General Assembly must be initiated in court. The resolution of the General Assembly is disputable in cases where it violates a legal government decree or the decrees of the Foundation Deed. A decision that was intended to modify the Foundation Deed by majority vote may also violate the law. It may result in a substantial violation of justifiable minority interests. For instance, the acceptance of a budget that does not come up to the standards of reasonable management standards may violate justifiable minority interests.*

### ***18Deadline of Impingement***

*The deadline of impingement occurs sixty days from the passing of the resolution. The deadline does not result in forfeiture of rights, i.e. in important matters it is excusable.*

### ***19Impingement Petition***

*It is crucial to identify which resolution or what part of it is impinged by the petition. The submission of an ill-prepared, inaccurate petition or the inadequate defense of the Common Representative may result in the entire resolution being overruled. In such an event, the life of the condominium may become practically paralyzed in the absence of an operative resolution. The sessions of the General Assembly and its committees are efficient only after having been organized in a proper way and if they have a suitable agenda. The agenda of the sessions is worked out by the Common Representative or the president(s) of the committee(s).*

### ***EThe Role of the Common Representative (Executive Committee) in the Management of the Condominium***

*Government Decree No.11. of 1977 requires the election of a Common Representative or an Executive Committee, who/which is obliged to represent the condominium under the supervision of the General Assembly during the period between two General Assembly sessions.*

#### ***1The Exercise of Representative Authority***

*According to this same decree, the Common Representative has the right to administer and make decisions in all matters which are not drawn under the General Assembly's own authority. The concept of representation is defined by points No. 219-222 of the Civil Code. The essential point is that the Common Representative represents the condominium vis-à-vis third parties, in court and in relation to different authorities. The legal actions of the Common Representative or Executive Committee or the duties they undertake are to be regarded as if they were made by the co-owners themselves.*

#### ***2Management (Operation) of the Condominium***

*Performing this duty mainly entails building maintenance (occasionally its renovation), building management and all other pertinent and practical tasks.*

##### ***aOperational Tasks***

*The following tasks are usually performed by someone employed by the condominium. The employer's rights are exercised by the Common Representative or Executive Committee.*

- Keeping the common areas of the condominium and the sidewalk in front of it clear of any dirt or snow and ensuring that it is not slippery;*
- Illumination of the common areas;*

- Maintenance of the garden;
- Provision of superintendent for the elevator;
- Maintenance of Central heating.

#### *bMaintenance Tasks*

*Maintenance work is usually carried out by an outside contractor. However, it is the Common Representative's task to establish the repairs to be carried out. This entails obtaining price proposals, checking the contractor's references, supervising the work, and signing off on completed work. The following are maintenance tasks:*

- Waste removal;
- Utility services (water, sewage, electricity, gas);
- Metering of these utility services;
- Maintenance and repair of the central equipment/machinery (e.g. elevator, central heating equipment, etc.).

*These maintenance activities are generally done through flat rate contracts.*

#### *cOther Management Tasks*

*The Common Representative or Executive committee are also charged with the tasks of leasing and leasing oversight which can help the condominium realize income. These tasks include:*

- Renting out the apartments which remain in common property;
- Renting out the non living premises of the condominium (e.g. cellar, store rooms, laundry);
- Allowing the placement of advertising signs, neon boards (on the roof or facade), placing displays or ads around the entrance;
- Renting out parking places

*The lease can be for a definite time or for an indefinite time.*

### **3Accounting Duties**

*All financial transactions (incomes and expenses) of the condominium have to be recorded in accordance with the accounting regulations concerning condominiums. The book-keeping rules prescribe two-way accountability.*

*Book-keeping, in compliance with the rules of single accounting, is based on the financial performance of the condominium. This is necessary for the drawing up a balance sheet at the end of the year. Account statements should be made to the co-owners which give a detailed report on the incomes and expenses of the condominium by the types of costs. This includes the allocation of costs in accordance with the ownership proportions.*

#### ***4The Responsibility of the Common Representative or Executive Committee***

*The Common Representative or Executive Committee are responsible for the management of the condominium. Therefore, successful management of the condominium depends greatly on his/her technical, legal, economic and financial expertise. The organizational and communication skills of the Common Representative are important when working with the co-owners. The Common Representative represents the interests of the condominium. Therefore, if the required results are not achieved, s/he can be held responsible.*

#### ***FThe Auditing Committee***

*The Government Decree No. 11 of 1977 concerning condominiums names only one specific committee: the Auditing Committee. The reason for that lies in the importance of its duties. It is the Auditing Committee through which the condominium oversees the financial management of the Common Representative or Executive Committee.*

#### ***1Budgetary Supervision***

*With respect to the supervision of the budget proposal worked out by the Common Representative, the following questions need to be asked.*

*aDoes it match the requirements set by the Building Rules and Regulations and the resolutions of the General Assembly?*

*bDoes its content serve the elaboration of resolutions of the committee and is it suitable for debate?*

*cDoes it contain all expected incomes and expenses and are they planned realistically?*

#### ***2The Common Representative's Report***

*With respect to the Common Representative's report the following questions need to be*

*asked.*

*aDoes his/her report contain the real expenses and incomes?*

*bDoes the division according to the ownership proportions meet the requirements of the Foundation Deed and the resolutions of the General Assembly?*

*cIs the report on the financial situation realistic?*

*dAre all the allocated funds included?*

*eAre the closing balance of the previous year and the opening balance of the current year identical?*

### ***3The Balance Sheet***

*Supervision in the course of the year must address the following questions.*

*aAre the accounting duties performed in compliance with the regulations?*

*bDo the vouchers contain real expenses and those of the condominium?*

*cDo the vouchers meet the legal requirements?*

*dIs there evidence of supervision of the vouchers and of financial discipline?*

*eDo tax returns and social security reports comply with regulations?*

*fDo the wages accounting comply with the regulations?*

*gAre the bills issued by the condominium legally acceptable?*

*hIs there a system for the recovery of due payments?*

*The Auditing Committee is obliged to report and document its supervision and observations to the General Assembly. The Auditing Committee is responsible to inform the General Assembly in case it detects any act of the Common Representative which violates the interests of the community.*



## ***GPublic Relations and Communication***

*An important quality that Common Representatives must possess is people relations skills. The Common Representative will be constantly confronted with a myriad of issues and conflicts which will need to be resolved among many players. These players include the auditing committee, the executive committee, residents, and private contractors, among others.*

### ***1Common Conflicts***

*There are standard types of conflict that arise in condominiums. These conflicts will involve different players and, depending on the situation, will have to be handled in different ways. The most common conflicts include:*

- *The amount of the shared costs among residents;*
- *Utilization of common spaces;*
- *Co-owners who are in default of payment;*
- *The amount of the stipend for the Common Representative and other service-providers;*
- *The municipality's portion of shared costs;*
- *Distribution of parking lots;*
- *People with children vs. people without children;*
- *Pet owners' behavior vs. non pet-owning residents' rights.*
- *Any number of other conflicts that are associated with people living in close quarters, such as problems from noise, children, animals, bad habits*
- *Any number of conflicts that arise from the operations of the condominium and the provision of services to the condominium (e.g., utilities, public services.)*

### ***2Communication***

*There are different ways for a Common Representative to help resolve conflict, depending on the number of people involved. S/he can:*

- *Communicate directly (orally) with the person;*
- *Communicate indirectly (through written communication);*
- *Hold consultation hours;*
- *Conduct tenants' meeting;*
- *Call a session of the Executive Committee;*
- *Discuss the matter (if it involves a utility dispute) with the service company involved;*
- *Post an announcement by the Executive Committee;*
- *Distribute a memorandum by the Executive Committee;*

- *Conduct an Assembly session/tenants meeting.*

### ***3Preparing for Meetings***

*Two basic principles which govern most people living in condominiums are often at odds with one another: Residents want to live in a well-maintained house but they generally want to have little to do with the building's affairs. A condominium will greatly benefit from democratic decision-making because it is this process that makes the condominium a reflection of its owners. Resident participation in the democratic process will enhance their adherence to the rules that they establish. A Common Representative can encourage resident-participation by preparing for meetings. The following are some basic rules to follow:*

#### *aChoose a Date*

- *When do most people get home?*
- *What are other events occurring that night (will a popular television show inhibit people from coming?)*

#### *bPrepare the location*

- *It should be suitable to seat 80% of the total number of people.*
- *It should not be located too far from the building.*
- *The illumination and temperature conditions should be suitable.*

#### *cPrepare for the Meeting*

- *An announcement should be created that is exact and informative (location, date, duration, topic, participants' functions.)*
- *Written reminders of the oral presentations are to be distributed a few days following the invitation. Their additional function is to confirm the date of invitation.*
- *Signs should be prepared to assist owners in finding the premises.*
- *A moderator should be identified, invited and prepped.*
- *Make preparations for sound and/or video recording, if needed.*

- Conduct a check of the list of invited persons.

#### *dConduct the Meeting*

- Conduct a last checkup of the premises.
- Pass around an attendance sheet (several empty ones.)
- Keep the fundamental documents of the condominium available.
- Keep in compliance with the pre-set agenda.
- Mediate the proper role-fulfillment (the science of when to speak and when not to.)
- The manuscript's coordination with the moderator.
- Identify of the active co-owners

#### *eFollow-up Activities*

*The following are tasks that need to be accomplished after the meeting is conducted:*

- Provide a written acknowledgment to the guests and moderators for their participation
- Provide written information to the co-owners about the new resolutions
- Follow-up on the decisions made during the Assembly Meeting and encourage the active involvement of the co-owners

### ***H*Ways of Performing Joint Representation**

#### ***I*Who Is Eligible as Common Representative?**

##### *aCommon Representation Performed by Professional Management*

*For buildings with a high number of housing units, professional management may be retained.*

*The State or municipality may perform the Common Representative's tasks for condominiums which remained partly state-owned in the course of the privatization, until the General Assembly is held or after, if expressly commissioned to do so.*

*Beside the real estate management companies, some companies have been formed with the goal of performing professional management of condominiums.*

#### *bCommon Representation Performed by the Co-owners, Executive Committee*

*Sometimes one or some of the owners of the condominium disposes of certain management expertise. S/he may perform the common representation as voluntary work or for an honorarium. This works best in cases involving condominiums having a low number of housing units.*

*In the case of large condominiums, if the community does not want to commission an external person or organization to perform common representation, the foundation of an Executive Committee is the most advantageous course of action.*

### ***2Finding a Common Representative***

*The more care that is taken in choosing a Common Representative for the condominium, the better and more efficient the operation of the condominium will be in the future. It is useful to elect a small committee (3 members) from among the owners to appoint the most suitable candidate or to find potential candidates.*

### ***3Selection of Candidates***

*Usually, the Executive Committee will consult with other neighborhood condominium communities, contact real estate managing firms or self-employed entrepreneurs, or advertise in order to find a common representative. After a suitable candidate has been identified, s/he is to be asked to submit a tender and indicate references. When investigating the tenders, the candidate's former performance should be examined closely.*

*Having found a suitable candidate (s), contact must be established with him (them). At the job interview, the committee must evaluate:*

*aThe extent of the candidate's relevant experience;*

*bWhether s/he has the necessary experience and skills to meet the expectations of the condominium;*

*cWhether the personality of the candidate is compatible with the building and the owners;*

*dWhether the candidate is available when s/he is needed;*

*eWhether the residential community can afford to pay the candidate.*

*The committee elected for this purpose must convene to discuss all the information and the strong and weak points of the candidate(s). One or more candidates may be invited for a subsequent interview if the committee can not decide the matter. The ultimate decision is to be made by the General Assembly.*

### ***ISample Management Contract***

#### ***Management Contract***

*Concluded between, on the one hand, the condominium of ....., Budapest as the principal, on the other hand, ..... as the agent with the following conditions. The condominium's General Assembly of .....199... commissions .....with the common representation of the condominium of..... for a one year period starting on .....199.. with an honorarium of .....Fts.*

- 1. The agent must to perform his/her duties in accordance with the Government Act No.11 of 1977 on condominiums and the Foundation Deed.*
- 2. The duties of the Common Representative included in point one, especially:*
  - a) Management of the condominium's affairs in the period between two sessions of the General Assembly.*
  - b) Cooperation with the bodies elected by the General Assembly of the condominium.*
  - c) In case of a debate between the Common Representative and the elected bodies, it is the duty of the Common Representative to convene an extraordinary General Assembly if there is a need for the immediate settlement of the conflict. Failing a consensus, the General Assembly may be convened by a person commissioned by one third of the co-owners.*
  - d) The Common Representative prepares the annual budget and the statement of accounts of the fiscal year.*
  - e) The Common Representative represents the condominium at courts and authorities, acquires titles and takes responsibilities.*
  - f) Provided that extra expenses are necessary which are over the estimated costs*

*of the annual budget, the Common Representative, due to an event calling for immediate intervention, is entitled to take the necessary measures. This is to be done without convening an extraordinary General Assembly, but at the same time informing the co-owners in order to avoid losses.*

- g) The Common Representative is entitled/obliged to take the necessary measures against, and if necessary, sue co-owners who do not pay the shared costs/advances.*
- 3. The rights and duties of the Common Representative and the co-owners are included in detail in the appendix.*
  - 4. In case there are additional duties of the Common Representative (due to partial or total renovation) beyond those in connection with maintenance, he is entitled to an extra fee determined in a special resolution of the General Assembly or in a contract.*
  - 5. The owners of the condominium are obliged to provide the material and financial means for the Common Representative that have been determined by the General Assembly. In special cases additional resources are to be provided. The possible losses due to failure in payment are to be covered by the owners. The Common Representative is exempted from responsibility.*
  - 6. In questions not regulated in this commission, the regulations of the Civil Code regarding commission are applicable. ....Budapest ..... principal agent When the chosen candidate is elected by the General Assembly, it is useful to include the conditions of the commission in a contract. The commission may come about by a resolution of the General Assembly, but fixing the contractual rights and responsibilities is more advantageous for both parties and may provide more guarantees than a simple authorization.*

### ***JLeasing***

*The owners' community of a condominium may get income through:*

*1The letting out housing units which remained jointly owned*

*2Utilizing the premises which do not function as housing units such as:*

- Basement*
- Laundry*
- Dryer*
- Bicycle or baby carriage storage*

- *Advertisement board*
- *Façade advertisements*
- *Vehicle storage*
- *Shop windows located in the gateway or on the façade around the gate*
- *Announcement board*
- *Elevator fees*

*No owner is entitled to the exclusive use or possession of premises jointly owned without the consent of the other co-owners.*

*The possession or use may be for a single individual or a group. Any of the co-owners may be obliged to pay a fee for the use in cases where the General Assembly has decided so.*

*In case more water or electricity than usual is consumed by someone, the extra consumption may be covered by a fixed-rate agreement or according to the actual consumption.*

*The contract may be in force for a definite or indefinite period. The contract made for a definite period expires on the last day of the period. The contract made for an indefinite period may be terminated in case a certain condition of the contract has not been met and sufficient notice has been given. The parties may come to a mutual agreement different from this, but it is important to have such an agreement in writing. Either the general conditions of the contract are met or they are not.*

*It is important, that in any case of a lease, the lessee is not excused from obtaining the required permits from authorities (e.g. construction permit). Without these, the lease can not be continued.*

## **VIII Building Maintenance and Renovation**

### ***ABuilding Condition Survey***

*The responsibility of the Common Representative regarding building maintenance and renovation refers generally only to the part of the building in common property. The maintenance and renovation of the individual units are the responsibility of the individual owners (tenants). All common expenses are to be born by the owners in proportion of their share of the common property (building area, equipment.)*

*The co-owners are to be kept thoroughly up-dated regarding maintenance and renovation in terms of both cost and technical concerns. The work to be done is to be weighed and scheduled.*

*The successful operation of a condominium depends many times on properly formulating the tasks of building maintenance and renovation. In order to be able to adequately project maintenance and renovation needs, the physical condition of the building has to be assessed very carefully and thoroughly. In order to do this, a building condition survey should be undertaken. This survey should include a full systems, structural, and legal analysis of the building. A building maintenance and renovation plan should be formulated that ensures the long-term stability of the building while simultaneously ensuring the lowest cost to the co-owners.*

Prior to the building condition survey, the structure of the common property, its parts, subunits, and the bordering points between the common and individual property are to be definitely clarified. Disposition rights, supply and maintenance liabilities of the public utility companies and authorities are also to be included in the analysis.

### ***BCentral Building Service Equipment***

#### ***1Chimneys***

*The chimneys and smoke channels are commonly owned. It is recommended to request the professional advice of a chimney cleaning service during the acquisition of the building and to verify the state of the chimney every 3 years. The chimney cleaning service shall inspect and report on the condition of the chimney holes, the strength of the draft and the condition of the chimney.*

#### ***2Central Heating***



*Central heating is intended to supply regular heating, hot water or both for one building or a maximum of two buildings in a common network.*

*The comprehensive regulation of central heating equipment is found in decree no. 2/1966. VM. The border point between the common property and individual property is the closing valve of the hot water pipe. The radiator (heat transfer device) and the pipe up to it are regarded as the equipment of the apartment. All other parts are common property and are to be maintained as such. A committee may be established to decide upon the heating, including its period and intensity for heating, the distribution of actual expenses among co-owners and any units or portion of the condo which might be excluded from the heating supply network.*

*A qualified stoker should be employed and his duties are to be laid down in writing. An authorized firm should be hired to conduct a cold and hot test run and an annual air pollution test. The results of both tests are to be recorded.*

*Regarding the supervision of the central heating system, it is advisable to use a highly skilled, well versed specialist to advise on issues ranging from the fire protection measures to the design of the heat transfer devices in the apartments.*

### **3District Heating**

*District heating is a kind of central heating system supplied by a heating power station and through heating centers. The district heating in Budapest is supplied by FTV. FTV is responsible for the maintenance of the heating centers themselves, the main lines up to the main closing valve of the vertical pipelines, and the hot water tanks located in the heating centers.*

### **4Elevator**

*The Common Representative should hire an elevator operator, possibly a person living in the building, and establish an alarm bell from the cabin of the elevator up to his/her residence. According to degree no. 17/1973.(V.16.) VM, an elevator supervisor is to be assigned and s/he shall conduct inspections in each quarter of the year and draw up records on their results. It is recommended to conclude a contract for regular maintenance and repairs for the upkeep of the elevator.*

### **5Central Ventilation**

*A ventilation system supplying fresh air to a large number of apartments is called central ventilation equipment. The Common Representative is responsible for the*

*maintenance of the air ducts, the driving motors of the exhaust system, the electric conductors and the automatic control system. It is recommended to call for the decision of the General Assembly or that of the managing committee regarding the period of operation of the ventilation system. The ventilation must not be discontinued, even temporarily, in kitchens using gas as fuel and not having natural ventilation.*

### **6Water Pressure Intensifying Device**

*It is recommended to conclude a maintenance contract with a specialist who is willing to provide round the clock attendance so that the complex Water Pressure Intensifying Device equipment can run uninterrupted. Because such equipment supplies drinking water, the public health regulations shall be strictly adhered to. The usual devices run by mains of 380 V and they supply 6 bar pressure. Therefore, the premises of the devices are to be kept closed and to be inspected each 2 - 3 days. It is worthy to consider whether the water pressure intensifying device is to be disengaged and a new connection of larger capacity is to be installed to the water conduits.*

### **7Central Television Aerial**

*In case of cable television network, the signals operating the individual TV sets are regarded as individual services and the cost of maintenance is usually included in the network fee. Before the establishing of a new AM micro or other central aerial, and before the repair of an existing one, it is recommended to receive a decision of the General Assembly regarding the charging of expenses as common expenses (telecommunication copyrights, etc.). The consent of the Common Representative is required if any of the residents intends to install an individual aerial by using the common property. The technical specifications are to be prescribed for granting permission.*

### **8Remote Control Gate with Telephone**

*This is an electronic remote control and a telecommunication line operating between the main gate and the individual apartments. The basic technical requirements are as follows: clear audibility of the speech, legibility of the list of residents, safe opening and closing of the gate.*

### **9Central Garbage Collector System**

*The vertical ducts of the garbage collecting system passing all the floors of the building are regarded as a part of the common equipment. The mechanical parts, the*

*ducts and their joints are maintained against the common expenses. Care is to be paid to the regular discharging, cleaning, insect, rodent and odor control.*

### ***CPublic Utility Services and Suppliers***

#### ***1Water***

*The ownership of the supplier and its maintenance responsibility refers to the water meter of the main pressure pipe entering the real estate. The pipeline belongs to the common property within the boundary of the real estate from the above point to the closing valve of the consumer tap. Considering that the water is one of the most expensive public utility services, one of the most important activities is the monitoring of the measuring of the supplier.*

*The discovering and repairing of leakage and breaks either detected or suspected due to over consumption is important not only because of the high water charges but because the leakage may cause great damage to the building.*

*Various problems are associated with the distribution of water charges among the residents. The charges may be distributed according to the proportion of the ownership, in the function of the number of rooms, the grade of the comfort or according to the number of persons. The matter of individual meters for individual apartments brings about new questions. These residents are usually willing to pay for their actual metered consumption but not for the wastes originated from the bad condition of the common pipeline. It is to be noted here that the individual meters are suitable to measure the proportional consumption and they may be easily tampered with.*

*It is recommended to call for a decision by the General Assembly on the mode of the distribution of the water charges.*

#### ***2Sewage System***

*The rights and responsibilities in connection with the drain pipes begin at the border of the plot and have their end at the connection to the apartments to the vertical pipe line. The cracks, breakage and leakage of the drain pipes are as dangerous to the status of the building as those of water pipes. Therefore, their immediate repair is important. The actual expenses incurred in connection with the drain pipes are proportional to that of water consumption. Hence, the settling of the drain charges takes place along with the water charges. It is recommended to pay attention to the various allowances and bonuses, such as the sprinkling allowance in Budapest during*

*the summer months. During this time, there is a reduction in the drain fees.*

### **3Electricity**

*The connecting point of the supplier of the electricity is at the side of the building in case of an overhead line and at the border of the plot in case of an underground cable. The main watt-hour meter of the building, which measures the common consumption and its switchboard, belong to the supplier too. The common property is from this point to the watt-hour meter of the individual consumers. The condition of it requires close attention because of its high flammability. It is necessary to conduct periodic tests of electric shock protection or even a test of lightning protection. Opportunities for immediate savings appear only by reducing the consumption. Examples include the use of an automatic switch of the staircase lighting, use of bulbs of exact required capacity, etc.*

### **4Gas**

*The property right of the supplier reaches the boundary of the plot and in the case of an inaccessible plot or vacant plot, it reaches the free end of the incoming pipe. Common property is from there to the equipment of the consumer. The supplier is responsible for repairs to a pipeline in common property. After which, the supplier shall have his expenses reimbursed. It is recommended to exhibit the gas supplier's telephone number in a visible place in case of leaking gas.*

### **5Garbage**

*Regarding Budapest, at present a rent is to be paid for the garbage cans and one can of 240 liters is provided for 12 apartments. Regarding other settlements, the garbage fees are set according to the size of the building and the number of residents. The costs incurred in connection with the damage or loss of garbage cans are charged to the residents. Failure to keep the can clean is the responsibility of the user.*

### **DBuilding Condition Survey**

*No extraordinary competence is needed to carry out the below examination. But in the case of certain details, especially technical ones, experts or persons well versed in the field might be of help. The point is to have a thorough examination including every detail. At least two persons must be present, one spotting the problems, overlooked by the other. The observations shall be recorded and a sketch shall be drawn about the discovered problems. Write down every observation. The more information available, the easier the renovation and upkeep. To simplify matters, the chapter divides the building and its systems into smaller*

parts. The examination should proceed from the bottom to the top.

### **1Basement**

- **Corridors:** Are they clean and well lit? Are they not blocked up?
- **Exits:** Are they marked? Are they not blocked up? Do they work?
- **Lighting:** Is lighting adequate in the basement premises, even in corners? Do built-in furnishings work? Are the switches clearly indicated? Are they not blocked?
- **Trash Room:** Are the trash cans separated from the ground and lying on loading slabs? Are the cans in proper condition? Do their covers close tightly? Are there rats or other rodents? Are the floors swept and clean? Does the place have an unpleasant smell?
- **Meters:** Are the gas, electricity and water meters easily accessible to meter men and the inhabitants? Are the meters clean and properly protected from damage? Are they well lit?
- **Storage Rooms:** Are they cleaned, safe and properly lit? Are all the objects deposited there entered into the inventory? Are the objects placed on loading slabs or shelves to prevent wetness due to leakage?
- **Doors and Windows:** Are they intact and in good condition? Do the locks work? Do functioning units work? Has heaps of trash not blocked doors? Do windows and doors tightly fit their frames so that heat cannot escape?

### **2Lobbies and Halls**

- **In-building Communication System (Gate Telephone):** If there is an inner communication system, does it work? Can speech be heard clearly through the microphone? Are the names of tenants clearly readable on the communication board?
- **Remote Control Buzzer:** If there is one, does it work? Does the gate open with buzzing and lock again when buzzing stops?
- **Mail-boxes:** Are they clean and in proper condition? Do they open and close well? Do the locks work? Are the names of the tenants clearly shown?
- **Staircases:** Are the stairs in good conditions? Are all steps properly repaired? Has no step coverage been removed which could cause an accidents? Are the stairs properly lit? Are they clean and obstruction free? Are the rails intact and fixed firmly?
- **Apartment Doors:** Are they clearly indicated showing the apartment

*number or the resident's name? Are the doors in satisfactory condition, having no holes, broken locks or hinges?*

- **Lighting:** *Are all halls, staircases and other common premises properly lit? Are all the bulbs in place? Do all the built-in fixtures (e.g. switches) work? Are the switches within easy reach? Are they properly indicated?*
- **Ceiling, Walls, Floors:** *Are all the surfaces clean and in appropriate condition? Are there holes and/or cracks? Has paint peeled off? Is the painting on walls and ceilings fresh? Is the floor coverage fixed well? Has no covering unit, tile or floor carpet come off?*

### **3Building Exterior**

- **Roofing and Skylights:** *Is the roof in adequate condition? Are the seals at connections satisfactory? Do the joints fit tightly? Are there no cracks or clefts where elements of the roofing material might get placated? Are there no holes in the roof? The roof is not collapsed? Water can run off freely without collecting? Tin isolation around skylights is adequate? The roof is clean and free from litter or debris?*
- **Roof Drainage:** *Are the drainpipes and waterspouts clean and free of blockage by leaves or debris? Are seals around rain ducts intact? Does water collect around the pipes which could cause leakage?*
- **Waterspouts:** *Does the rain pipe connect to a waterspout where necessary? Are waterspouts in good condition, not rusty or broken? Do they channel off water at a certain distance from the wall or does water flow on the wall of the building?*
- **Abutments:** *Are all parapets intact and vertical? Are the coping-stones fixed? Are there no cracks or loose stones? Is the tin sealing around the foot of abutments firm and strong?*
- **Smoke channels and chimneys:** *Are chimneys vertical and intact? Is the condition of chimney bricks and mortar satisfactory? Is isolation around smoke channel openings and chimney undamaged and with the right caulking material? Are all smoke channel openings and chimneys intact? Are there no broken or bent chimneys? Are chimneys and smoke channels clean, not blocked by debris fallen into them? Are they protected from blocking by rain-caps or screens?*
- **Masonry Facade:** *Is the general status of the brick and plastered surfaces of the external walls of the building satisfactory? Are bricks missing or is plaster washed off at places? When one wall used to be common with another building, is it now firm and weather- proof?*
- **Windows:** *Are all windows in place? Is their external condition*

*adequate? Are window panes missing? Are window structures fixed firmly into the outer wall? Are there no cracks or openings where water can leak in? Are the window frames sealed well? Are the window frames weather proof? Are the outer sills firm, not rotten? Do they carry the water off the wall?*

- **Doors:** *Does every door work? Is a door missing? Are the lubrication and fixing of hinges adequate? Do all locks work? Do keys open/close the locks? Are bumpers and door isolation in proper condition? Are entrances clean and free of debris? Are water collectors at basement windows empty and free of leaves or litter?*
- **Emergency exits:** *Are all emergency exits intact with the walls of the staircase leading to the emergency exit freshly painted? Does the plaster base show through somewhere? Are staircases and ladders fastened to the building properly? If the fire-stairs are an extending ladder, can it be easily and quickly put into use? Are emergency exits and ladders easy to reach and not blocked by plants, furniture or other junk?*
- **Courtyard:** *Are the courtyards clean and free of trash? Is the flooring smooth? Are the curbs intact? Is the light-shaft clean and without trash or debris?*
- **Sidewalks:** *Are sidewalks around the building in proper condition? Are there no bad cracks in them? Is no piece missing from sidewalks?*
- **Gates and Fences:** *If there are gates and fences surrounding the building, are they in good condition? Do the gates open easily and close easily? Is the paint on the gates and fences fresh and not overgrown by vegetation?*
- **Lighting:** *Does every external light work? Is there a bulb in every illuminator? Is every light set in the right direction? Are bulbs protected? Are dangerous places e.g. wind-breaks and gateways sufficiently lit? Are sidewalks lit properly to prevent accidents?*
- **Water Pipes:** *Are water pipes going across the courtyard or air-shaft? Are the pipes around the building clean and free of debris? Are they capable of carrying off water? Does water run down the spouts easily, without collecting? Are the pipes tightly fixed in concrete? Has the concrete any cracks? Are the pipes protected against blockage by material washed or stuffed into them?*
- **Buttresses:** *Are the ground walls and retaining walls in good conditions, not bent or crooked? Are plants removed enough from the walls? Is the ground around the building hard enough? Are there pits where rainwater from the roof can collect?*
- **Wind-breaks:** *Are front and rear wind-breaks in good condition? Are*

*the steps leading to them firm? Are there broken or missing steps? Are the rails intact and strong? Are wind-breaks properly lit?*

*After conducting the survey during a few weeks, you will be in possession of the set of rough data and information.*

## ***EMaintenance and Renovation Plan***

### ***1Professional Conditions for Execution***

*As a result of surveying the building status, you obtain a list of problems. For financial reasons, it is often difficult to address all of the building's problems at once. Good building management calls for the regular and sometimes professional maintenance of the equipment still safely operating as well as their continuous maintenance. The Common Representative should submit the findings of the survey to the committee of the condominium responsible for maintenance and renovation. In their session, the participants should set an order of importance with respect to maintenance and renovation work. This should be followed by a session of the general assembly where the results of the survey are outlined along with the proposals which were formulated by the Common Representative and the maintenance committee. The final order of importance of renovations and the maintenance program is to be approved by General Assembly resolution.*

### ***2Repair or Replace?***

*In the course of maintaining a building, it must be decided from time to time whether something broken is to be repaired or replaced. The decision is based on both technical and financial considerations. The condominium association may only be able to afford the repair of the item at present even though its replacement will be needed sooner or later.*

*When a job is work-intensive (where the cost of work far exceeds the cost of materials), replacement is advisable. Though costing a bit more, in the long run it will save money. For example, if a window frame is decayed, it takes a carpenter many expensive work-hours to replace rotted pieces, while the outcome is only a half new window. A little more money will buy a brand new window that will last much longer.*

*On the other hand, when the bulk of the cost is materials, it is generally better to pay for repairs only. In other words, if the window is in good shape and the glass breaks, do not replace the entire window, only the glass.*



### ***3Practical Advice during the Period before Placing Orders***

*You are advised to get prepared. Do not hesitate to become informed of products, materials, so that you can decide on what you need. For instance, it is not the same to select strip parquets, oak parquets or acacia parquets as each provides a difference in finish and price. Prepare a cost estimate. During the preparations the expected cost is to be determined and approximately 10% is added. There can be a chance for savings, if the investor himself procures the material and avoids the overhead of the contractor. All opportunities to alleviate the actual costs of the work, while not jeopardizing the quality, should be explored.*

### ***4Writing a Scope of Work***

*The first step in negotiating with a contractor is to define, in specific terms, the job to be done. The detailed definition of the work in writing is the scope of work or specification. The specification of work is an official description of the job on the basis of which the contractor places his offer. The specification will be part of the work contract obliging the contractor to carry out the work as stated. The specification is a detailed document containing the materials to be used and methods to be applied. The specification leaves nothing to the imagination nor the judgment of the contractor.*

*Specifications are not always necessary, but it is most advisable in those cases involving complex jobs requiring precise instructions. To draft the specification, the assistance of an architect, engineer or construction manager is usually necessary. Scopes of work for simpler jobs can be done alone. The specification is followed by inviting bids. Written bids should be asked from at least three contractors. It often helps to get a lower price offer if the contractors know others have also been invited to bid on the project. The specification of work, as the invitation for bids, should be accompanied by a letter asking the contractor to give written cost estimates, schedule of payment required and references. Schedule of payment varies by contractor, but usually a prepayment of 20-30% is made to cover the procurement of materials. There is no justification for 100% prepayment.*

*Installments are to be paid at set periods during the execution of the work. At least 10% of the amount to be paid should be kept until the completion of the work, when it has been made certain the work has been done at the required quality. A new roof may seem adequate until it starts raining. Retaining a certain proportion of the final amount may ensure the contractor returns to upgrade work, if needed. It is customary to hold back the security for one or two weeks. Asking for a longer period is not fair toward the contractor unless errors have been spotted. At the same time, there may*

*be cases when retaining a fraction of the final amount is not enough security. Many contractors jeopardize their good reputation rather than return to rectify a mistake.*

### **5Checking References**

*When checking the references, call the former clients of the contractor. If possible, visit the other buildings where the contractor has performed work. Ask the former clients if the work rendered came up to their expectations. Was the work done on schedule? What was the work morale of the contractor and his employees? Did they leave a mess or were they neat and orderly? Surprisingly, much can be learnt of a contractor when you know how clean he leaves a site. When checking the references, the main point is to see how conscientiously the contractor carries out the work. Don't spare your energies. It's worth the trouble, because good experiences can be gained.*

### **6Comparing Bids**

*Having invited at least three offers, you must compare them and choose one. You mustn't simply choose the cheapest bid. It may only be cheap on paper but turn out to be a bad choice. You must see if the quality of work and materials offered in that bid is at least as good as in the others. How is the work scheduled and what is the deadline? What are the references like? If the lowest bid passes a thorough check, it is the one to be chosen. But if the contractor with the best references has a bid which is slightly higher than the rest, it may be better to go with him in spite of the price.*

### **7Entering into a Contract**

*Every agreement or contract has at least four parts:*

- *the specification of the task*
- *payment*
- *deadline of work*
- *signatures*

*Apart from defining the amount to be paid, the disbursement of payments must also be specified. Disbursement of payments must be adjusted to the schedule of work. It must be stipulated that 10% of the amount will be retained until a fixed date after the termination of the work in order to have opportunity to check the work thoroughly. Certain contracts also specify the penalty for delayed performance. Other conditions can also be set, e.g., times of day available for work, access to apartments, time of emptying boilers or water pipes and time of filling them again. Finally, the contract*

*must be signed by the contractor and the Common Representative. Both parties must have at least one copy of the agreement. It is common practice to use the bid of the contractor as an agreement. If every point of the bid is satisfactory, sign it and return the original to the contractor while keeping a copy for yourself. Should certain points of the bid require modification, ask the contractor to send a new bid including the modifications. Sometimes separate contracts are to be drafted to include all the aspects. It cannot be stressed enough that the only tool for a legal procedure, in case of disputes, is the contract or agreement.*

### ***8Supervising the Work***

*The work of the contractor should be supervised by the Common Representative of a condominium. Supervision in most part means monitoring the contractor's work. When problems are spotted, they must immediately be reported. Don't wait until the completion of the work or paying the final disbursement to the contractor if a partial phase has to be repeated. A contractor can best be motivated to carry out the work by keeping back payments. Upon completion of the work, the person asked to supervise it does so by checking the quality of the work against the stipulations of the contract. In case of doubt, it is useful to ask another specialist of the field for a check prior to paying the final 10%.*

### ***9Sign-off***

*The Common Representative of the condominium should perform the tasks of supervision during the work. He should immediately discuss his remarks and objections with the contractor. After the work has been completed, there is a sign-off procedure where both parties agree that the contract was completed satisfactorily.*

## ***FContracting an Entrepreneur for Major Repairs or Renovation***

### ***1Hiring an Architect or Engineer***

*To prepare and carry out the major repairs and renovation work, it is advisable and often necessary, to hire an architect or engineer. Firstly, an architect or engineer must be contracted to check the building for architectural problems. This is especially important when doubts of structural problems have been raised. Secondly, an architect or engineer can be hired to draft the scope, the specification of work to be done or to make the drawings to define the work to be executed in detail. Certain repairs cannot be launched before the building authorities have approved the plans*

*submitted by an architect. Finally, an architect or engineer is required to supervise and monitor the contractor's work. He is also to be consulted about the disbursement of funds for each phase of work performed.*

## ***2Sample Contract Between Owner and Entrepreneur***

*Agreement made on .... between ... (entrepreneur), registered head-quarters and ..... (address) (hereinafter Condominium) under the following terms.*

### *aFirst paragraph: Commissioning the entrepreneur*

*Condominium and Entrepreneur agree that Entrepreneur carries out the work specified in the Second paragraph under the conditions stipulated by the present Contract.*

*Entrepreneur acknowledges that the running and management of the Condominium is the responsibility of the General Assembly, and he is obliged to regularly consult with the Executive Committee of Condominium, or any organ or person empowered by thereof.*

### *bSecond paragraph: Definition of work to be done*

*Entrepreneur is obliged to perform the following works under the conditions set by the present Contract: (the work has to be specified in due detail so that the contractor will see clearly what his duties are. If need be, the Specification can be enclosed.)*

### *cThird paragraph: Contracted price and payment obligation*

*Condominium is to pay .... (amount) to the Entrepreneur in return for the performance of work specified by the present Contract. Approved by the Condominium, the payment is to be phased as follows: % of performed work date of execution sum..... ..*

### *dFourth paragraph: Duration of time for the execution of work*

*Work specified in the present Contract is to begin on ... (date) and concluded on ... (date) the latest. (If necessary, various partial deadlines can also be set.) If the work cannot be performed for causes beyond Entrepreneur's control, he is to inform Condominium of the causes for delay in writing. Should Entrepreneur fail to do so, or fail to list a cogent reason for delay,*

*Entrepreneur has not performed the contract but breached it.*

*eFifth paragraph: Modification of the contract*

*Condominium and Entrepreneur agree that the modification of the specification of work to be done or price to be paid requires the written consent of both parties.*

*fSixth paragraph: Warranty*

*Entrepreneurs warrants the work for a year. According to the guarantee, the work is to be performed by Entrepreneur in adequate quality, free from material or technical errors. In case of reclamation s pertinent to warranty Condominium is entitled to turn to Entrepreneur within a year of the date of final payment.*

*gSeventh paragraph: Cleaning of work site*

*Entrepreneur acknowledges that after the conclusion of work he is obliged to remove all construction waste and remains without delay, and hand over the work area clean and tidy.*

### **3Sign-off Form**

*Drawn on .....199.. Participants being present on behalf of customer ..... on behalf of contractor..... Subject: The technical handing over - taking over procedure of the work laid down in Contract concluded on .....199..and having been advised as completed by the contractor. Deadline as per Contract..... Date of actual completion ..... The work is hereby taken over / not taken over as completed both in quantity and in quality. The invoice against the work taken over can be presented. Reason of refusing the taking over:..... Until the deficiencies are not supplemented .....% of the invoice may be withheld. After completing the supplementing of the deficiencies an other new record is to be drawn. Budapest, .....199.. customer contractor taking over handing over.*

## ***IX Financial Planning***

*The financial management of a condominium is to be provided by the co-owners themselves. The condominium budget is a plan or the statement of estimates related to the running of the condominium owners' common property and defining how to handle costs incurred over a year.*

### ***A The Expenses of a Condominium***

*The expenses of a condominium co-ownership association in general consists of the following items.*

#### ***1 Operating Costs***

- *The wages of the janitor, the cleaning personnel, the Common Representative as well as other expenses paid after wages (e.g. social security)*
- *Detergents and cleaning tools*
- *Public utility rates which would include: electricity bill for the lighting of common premises and staircases, gas bill for common premises, heating bill for common premises, fees for chimney cleaning, trash removal, use of trash can, water and sewage rates*
- *Costs of management: forms, paper, stationary, telephone costs, postal expenses, bank charges, and occasionally automobile use*

#### ***2 Wages, Work Fees and Payments for Work Done under Contract***

*Maintenance costs necessary for building maintenance include:*

- *Fees to be paid under flat-rate contracts for maintenance. For instance, maintenance, control or occasionally replacement charges to be paid by owners for elevator, individual central heating equipment and central antenna fee;*
- *Costs of preventive maintenance.*

#### ***3 Costs of Central Heating Renovation***

*Expenses of central heating borne by consumer, such as:*

- *Procuring, transporting and loading fuel, repairs to the boiler after the heating season;*
- *Removing the cinders from its storing place;*
- *Paying the stoker, along with his assistant and covering all other pertinent expenses such as the cost of work clothes;*
- *Costs of cleaning the rooms for the boiler and the fuel, the central heating equipment and other costs incurred by running the heating system (e.g. procuring working tools of stoker, electricity bill of power room.)*

*The costs for the consumption of central heating shall be accounted among the consumers according to decree 2/1966 (III.31) EM. Thus, costs are not divided according to shares of ownership.*

*Of all of the public utility rates, water and sewage rates need special mention. The majority of condominiums bear the costs of water consumption jointly, both regarding apartments and the water consumption of common premises (watering garden, washing staircase, etc.). If the condominium pays for the whole water consumption from the common costs, it is not necessary to cover it proportionately with the ownership share. The general assembly may decide that the water and sewage rates shall be distributed among permanent residents. In this case, a separate accounting must be done.*

*With the introduction of individual meters, the owners of more apartments pay the cost of water consumption directly to the utility firm. In such cases, the utility firm deduces the consumption of individual meters from the consumption shown on the central meter and bills the condominium with the cost of the difference. The consumption of the condominium equals the consumption of apartments without separate meters and the consumption of common premises. Again in the case of individual meters, only the consumption of the common premises of the condominium can be shown as common costs (by ownership shares), and for apartments without individual meters a consumption norm must be set.*

*The condominium expenses include expenses which can be reasonably estimated, and others that can only be broadly guessed. The total of expenses estimated in the budget eventually reveal how the condominium's income is to be spent. The sum total of the expenses estimated in the budget show how much income the condominium must have for that year. This is how the contribution per owner to the common costs is determined.*

*Even a well prepared budget might have to be modified during the year when an*

*unforeseen expense is incurred. The budget of the condominium helps the members calculate their expenses in advance and can enhance the trust of the members placed in the Common Representative and the Executive Committee members.*

### ***BThe Fiscal Year***

*The operating budget is always to be prepared before the beginning of the fiscal year concerned. The term Fiscal Year means the period which serves as a basis for the condominium when making its annual financial reports. The annual financial report is prepared for a calendar year (i.e. from January 1 of the year through December 31). It is a good strategy to prepare the budget two months prior to the beginning of the fiscal year.*

*The budget for central heating and hot water supply is to be prepared for the heating year beginning from May 1 through April 30 the next year.*

When drafting a realistic budget for the condominium, not only its own experiences but those of other persons/organizations may be of use. The relevant experiences of the professional Common Representative might be valuable if a real estate manager is employed. With regard to the renovation and maintenance costs, special capital investments, and professional services the condominium may use the information offered by other condominiums and organizations which support condominiums (e.g. National Association of Apartment Owners - LOSZ.)

### ***CThe Budget Worksheet***

*It is advisable to prepare the budget in the format as per Appendix 1, which offers a detailed explanation.*

### ***DPlanning the Estimated Expenses of the Budget***

*When preparing a budget, a wide variety of information coming from various sources can be used: The most important source for planning a budget is the actual list of spending for the previous and the current years. It should be noted that certain types of expenses change from year to year. It is always safer to anticipate unexpected problems in connection with renovation and maintenance. The experience of other condominiums and the practices/recommendations of condominium federations may be of great help in correctly estimating expenses. As for costs of materials, renovation and wages costs, the inflation rate may be the basis for a realistic estimate of this budgetary item. Finally, the district government may announce projected increases in water and sewage rates to be included in the condominium budget. Local government publications should be monitored to spot relevant information.*



*Some types of expense can be estimated relatively precisely. These include:*

- *Insurance rates contracted previously;*
- *Handling charges known in advance;*
- *Charges to be paid for the maintenance of elevators and boilers fixed in flat-rate contracts;*
- *Wages and extras due to employees.*

*The magnitude of other expenses may depend on events that cannot be foreseen precisely, so these costs must be estimated. These include:*

- *Costs of litigation and other expenses induced by legal procedures;*
- *Renovation and maintenance costs;*
- *Fuel consumption - (The consumption of fuel depends on the severity of the winter and on how the prices of heating oil or gas change. It is always better to overestimate these expenses. It is always advisable to anticipate problems in these fields. Should the condominium spend less than projected, the remainder can always be used for development of reserves);*
- *Maintenance services rendered by contracted entrepreneurs - The size of this appropriation largely depends on the willingness/ability of the owners of the building units to participate in the works to be done around the building in the interest of reducing costs;*
- *Expert opinions and fees to attorneys for the procedures against owners who fail to pay;*
- *Bank costs, though varied in extent, are not a sizable item;*
- *Administrative costs, greatly depends on the extent to which the co-owners are willing to contribute their work in order to reduce the costs of contracting with external specialists.*

### ***EPlanning the Income Side of the Budget***

*The condominium is likely to have to reconcile several sources of income to be indicated on the budget worksheet. These include:*

- *Revenues from the letting or sale of commercial or residential units owned by the condominium;*
- *Occasional payments imposed on the co-owners to avoid utilizing the income or reserves raised from the regularly paid common costs and used for special capital improvement;*
- *Any other receipt due the next year also shown on the budget worksheet.*

### ***F*Estimating the Common Costs for the Next Year**

*First the area of a co-owner's unit is divided by the total area of all units; the result is multiplied by the total common cost to obtain each owner's annual monetary share of the common costs. To obtain the monthly share of common costs to be paid by each owner, the annual monetary share should be divided by twelve months.<sup>1</sup>*

*For example: If the common costs amounted to 5,000,000 HUF, and the area occupied by all units is 10,000 ft<sup>2</sup>. If owner A has a unit with 200 ft<sup>2</sup>, his area percentage share in the condominium will be:*

$$\frac{200 \text{ ft}^2}{10,000 \text{ ft}^2} = 0.02 \text{ or } 2\%$$

*Owner A annual monetary share of the common cost will be  $0.02 * 5,000,000 \text{ HUF} = 100,000 \text{ HUF}$ . The monthly share of the common costs will be:  $\frac{100,000}{12} = 8,333.33 \text{ HUF}$ .*

*When increasing the common costs the Common Representative and the Committee can use the information in the budget worksheet for explaining the Increase.*

### ***G*Revision of the Budget**

*It may happen that required the contribution to the common costs by co-owners is too high and the estimated expenses and income must be revised. Other sources of income may be found to cover the additional expenses. It is more likely, however, that some anticipated expenses will have to be reduced or canceled from the budget in order to reduce common costs. Useful but not indispensable investments like the development of an in-house communication system can be postponed. Perhaps only some roof repairs can be undertaken during the year instead of replacing the entire roof. At the same time, certain major renovations might cause significant savings for the condominium. For example, a major water pipe replacement will cause smaller and cost-intensive repairs unnecessary.*

*Good financial management requires precise financial record keeping. This provides reliable information over the year, since a comparison with the actual spending and receipts can be of*

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<sup>1</sup>*If the condominium leases units, the income derived from rent should be deducted from the cost estimates. The difference is what must be the basis for establishing each owner's share in the common costs.*

great help for the following year.

### ***HRenovation Fund***

*The creation of a Renovation Fund became obligatory under Paragraph 11 of Law 11 of 1977. This provision, however, was abolished by Decree 33/1992 (29.05) of the Constitutional Court as being unconstitutional. Nevertheless, beyond the regular and ongoing costs of a condominium, one must reconcile renovation costs which will be necessary sooner or later. Renovation, even in the case of a single major structural unit, entails considerable expenses. The majority of co-owners, however, usually cannot afford to pay a single large sum in cash. Therefore, savings must be resorted to in order to solve this problem.*

### ***IFund Creation***

*Savings can made in several ways. When using savings deposits, however, the best way is to create a Renovation Fund. Creating a Renovation Fund is more advantageous than other forms of savings because not only interest is accrued to the fund but it also entitles the condominium to receive subsidized credit. When a Renovation Fund is created, provided the amount thereto meets legal requirements and has been placed in a bank, loans can be subsidized by the state on the condition that:*

- *The General Assembly voted to approve to create a Renovation Fund;*
- *The Renovation Fund creation has been started from the date specified in the provisions of Para. 11 of Decree No. 106/1988 (26.12.) of the Council of Ministers modified by Government Decree no. 76/1992 (30.04.);*
- *The amount of the Renovation Fund equals the amount specified in Decree no. 10/1977 (01.07.) of the Ministry of Finance modified by Decree 10/1992 (30.04.) of the Ministry of Finance.*

*The first condition for creating such a fund is that the majority of those present at the General Assembly vote to create such a fund. On that basis, the Common Representative opens the account for the Renovation Fund and ensures that the co-owners pay the amount prescribed. Under the frequently amended Government Decree No. 106/1988 (26.12), those condominiums that create a Renovation Fund get state subsidies for renovation. The state subsidy provides a 50/50 match of monthly payments made for renovation and upgrading purposes. It cannot exceed the interest rate. Individual co-owners of the condominium (the borrowers) have to pay the installments reduced by the subsidy to the banking institution.*

*Creating a Renovation Fund is mandatory for condominiums having more than six apartments. Subsidized credit via the creation of a Renovation Fund has two*

conditions. One is the date the fund was created, the other is the extent of contribution by co-owners. The condominium has to create the Renovation Fund within 90 days of its foundation, or when taking the building into use or possession. When a building is mixed ownership, the 90 days must be counted from the date of sale of the 7th apartment. If the deadline was missed, the support can only be had if 5 years of continuous fund creation at the prescribed rate have passed.

The obligatory contribution to the creation of the Renovation Fund is specified by Decree 10/1977 (01.07) of the Ministry of Finance, modified by 10/1992 (30.04) of the Ministry of Finance. Accordingly, the amount of contribution is the following

- Within 15 years of taking possession of a residential building or of previous renovation, the mandatory contribution to the Renovation Fund is 4 HUF/m<sup>2</sup> per apartment in a block without elevator and 6 HUF/m<sup>2</sup> per apartment in a building with elevator.
- After the 16th year until the reconstruction or repeated renovation of the building, the amount goes up to 6 HUF/m<sup>2</sup> per apartment in buildings without elevator and 8 HUF/m<sup>2</sup> per apartment in buildings without elevator.

The amount specified in the modifying decree was binding for condominiums founded after the announcement of the decree, i.e. April 30, 1992. As for condominiums founded before the enactment of the decree, the new amount applied only as of January 1, 1993. Before the modifying decree, the amount to be contributed to the creation of the Renovation Fund was half the amount specified by the decree.

The creation of the Renovation Fund must be separately handled in the cases where condominiums have mixed ownership. Before the enactment of the modifying decree, no contribution was to be made to the fund apartments in local government possession. When, however, reconstruction was necessary, the local government had to pay according to its property share for the renovation when settling its most recent bill. Under the modified decree, local self-governments must also contribute to the Renovation Fund. Should they fail to satisfy this obligation, they also deprive the individual co-owners of the possibility of subsidized credit.

## **2Renovation Fund Regulations**

Pursuant to Par. 4 of Decree 10/1977 (01.07) of the Ministry of Finance, the proceeds of the Renovation Fund can be used in order to cover the following works:

- Any technically necessary repair work that is related to the normal use of the building and that is done on a regular basis;

- Any work to renovate a building in bad condition or as a result of which the building is restored to its original state and reliability by renewing, reconstructing or replacing the various building structures or central equipment;
- Any work that facilitates the remediation of any faults in the various building structures or to achieve a longer lifetime thereof;
- Any modernization or reconstruction resulting in an improvement in normal usability or economic operation of the building;
- Construction work required by the construction authorities to be done by the condominium co-owners as well as any modernization, reconstruction or procurement necessary to change the conditions of public utility services;
- Any other work that has been approved by the General Assembly of the condominium on an item by item basis and is aimed at the renovation of the building.

### **3How to Open a Renovation Fund Account**

*In order to open a Renovation Fund account, condominiums should submit (as per the requirements of OTP Bank) the following information to the bank.*

- ***The resolution (minutes) of the General Assembly*** that includes the decision to create a Renovation Fund and open an account for it. When the condominium manages several buildings, resolutions are to be made building by building. This is done because the characteristics of the individual buildings may be different, resulting in a difference of the amount of the Renovation Funds. The resolution (minutes) of the General Assembly should contain the number of apartments in the building. For buildings with mixed ownership, the number of apartments owned by the state or local government should also be included as well as the floor area for each apartment and the monthly amount to be paid as a contribution to the Renovation Fund calculated for the entire building. The bank is interested in the global amount only. The breakdown that shows the amounts to be paid by the individual owners is an internal matter to the condominium.
- ***The Permit to put the building under use.*** If this document is not available for buildings older than 16 years, the date thereof is enough to be submitted.

*Related to the above, it is to be noted that the General Assembly is not required to make any resolution regarding the number of apartments in the building as well as their respective floor areas because these details can be found in the list of the property shares in the Foundation Document of the condominium. The resolution is*

*required in order to establish the amount of Renovation Fund to be created as well as in order to control the accuracy of the calculations pursuant to the law.*

*When establishing the amount of the Renovation Fund, the bank takes into consideration a complete renovation of the building for older buildings. Though laws mention only renovation, that generally means a complete renovation. Therefore, when the condominium has been renovated in part only or if only some of the building structures have been renovated which did not result in the complete restoration of the original technical condition and reliability, the contribution to the Renovation Fund will be of a larger amount for buildings older than 15 years.*

#### ***4Lending to Condominiums with Renovation Funds***

*When the condominium want to take out a loan for renovation and modernization works, they can apply for it by submitting the budget approved by the General Assembly and the expense allocation sheet that has been prepared based on the budget. The columns of the expense allocation sheet should contain the following:*

- Name of the owner;*
- Floor no. and door no. of the apartment;*
- The size of the property share;*
- The expense proportional to the property share;*
- The amount of the down payment;*
- The amount of the loan;*
- The amount of Renovation Fund contribution paid;*

*The expense allocation sheet must contain each owner including the owners of non-residential space and each owner must sign the sheet except for those who pay their respective expenses in one sum. For condominiums under mixed ownership, the signatures of the person authorized by the state and the person authorized by the local government are also necessary for the property share in state ownership and for the property share in local government ownership respectively.*

*The expense proportional to the property share can be covered from three sources by the co-owner.*

- From cash, which will be entered in the down payment entry;*
- From the Renovation Fund contribution paid;*
- From the amount of the loan applied for.*

*When a co-owner receives a forgivable loan or an interest-free loan they are*

*considered to be cash contributions. The amount of the loan that the condominium may receive can be no more than 50 percent of the cost of renovation. The remaining 50 percent is to be financed from the Renovation Fund and from cash.*

*State property management bodies and local governments cannot take out a loan to cover their expenses proportional to their property shares. They may only use cash for that purpose. The co-owners who have to make their contribution partly or completely in cash should make their payments to the Renovation Fund account.*

*The following documents are to be submitted in order to procure the loan.*

- *The budget;*
- *The resolution of the General Assembly regarding the renovation;*
- *The expense allocation sheet;*
- *The page of titles from the land register not older than 3 months for each co-owner s registered under sub deposit;*
- *The credit application forms of individual co-owners who apply for the loan together with income confirmations -- the apartment owners who are pensioners should attach their pension slip for the last month and present their pension confirmation in order to validate their pension numbers;*
- *A confirmation to be used as evidence that the apartments of the persons applying for the loan is insured.*

*The bank will give a loan to the owners who are credit worthy and hold a housing insurance policy. The loan amount is not globally approved by the bank for the condominium but is made up of loans approved individually for, and which must be repaid individually by the individual co-owners. If an owner is not yet registered in the land register the change in ownership is accepted based on the margin remark put to the edge of the page of title. The new owner should be registered in the land registry before the draw-down is made. Because only then, will the bank be in the position to have their mortgage registered.*

*If there is no obstacle to the approval of the credit application, the bank will open the loan account in the total amount approved. The amount of down payment is transferred to the bank from the Renovation Fund account by the Common Representative.*

*Banks require the construction contract in order to approve the credit line. On the other hand, most of the construction companies are willing to enter into contract only when the assignor is able to certify the possession of funds to cover construction. It should be noted that the credit is approved and used based on the net budget or net*

*invoice. The net budget or invoice relates to the amounts without VAT. No credit is extended for the purpose to cover VAT (i.e. to cover tax payments to be made to the state).*

### ***5How Can Condominiums That Do Not Have a Renovation Fund Take out a Loan?***

*The condominiums that do not have a Renovation Fund can take out a loan to cover renovation works. The procedures and requirements for obtaining credit are the same as for those who possess a Renovation Fund. The only difference is the interest rate and the payment amount.*

### ***6Legal Issues Related to Renovation Fund Creation When Selling Apartments***

*Today, about half of the condominiums create Renovation Funds. When selling an apartment that is in a building with a Renovation Fund a lot of disputes arise about whether the purchaser is obliged to pay for the former co-owners arrears.*

*The former co-owner cannot claim back his contributions made to the Renovation Fund up to the date of sale because making contributions to the fund is not linked to the person of the owner but derives from the responsibilities related to the common property. These responsibilities are specified in the resolution of the General Assembly. The contributions made to the fund belong to the whole condominium. The contributions could be withdrawn from the fund only if the General Assembly of the condominium brought a resolution to stop creating the fund and to pay back the amount. Such a decision, however, would be disadvantageous for the rest of the co-owners who stay in the condominium. Therefore, the former co-owner cannot expect such a decision to be made. The former co-owner who leaves the condominium may request to recover his contributions, but not from the condominium but from the head thereof in the framework of the purchase-sale contract.*

*On the other hand, the new co-owner does have to meet all of the rights and responsibilities of co-ownership. If the responsibilities include to pay contributions to the Renovation Fund and the seller co-owner had some arrears the new co-owner has to pay the arrears to the community. The new owner may claim the amount back from the former owner. The new owner may turn to court if this liability has not been clarified in the course of the sale and purchase.*

*It is preferable that when selling-purchasing apartments in condominiums, both the purchaser and the seller specify in the contract whether the condominium has a*



*Renovation Fund. Finally, the fact that the seller has no arrears should also be included in the contract.*

### ***IMoney Management***

*The way the condominium manages its money depends on the size of the condominium as well as the size of their cash turnover. In the case of condominiums of two to six apartments the cash turnover is not large. There are no substantial continual common expenses and depending on the architecture of the building sometimes only have to cover water supply and sewage fees. Money is often handled in cash only. Cash is deposited and cash is withdrawn from the petty cash.*

*For middle-sized or large condominiums it is not advisable to handle money through petty cash only. On one hand for security reasons (criminals might be tempted). On the other hand the lack of interest causes a loss to the condominium. When the condominium, regardless of its size, pursues some taxable activities, they are to open an account under the tax law. Depending on the business activities pursued by the community, three kinds of accounts can be advised for condominiums to open.*

- *A separate account for collecting funds necessary to operate the building*
- *A separate account for collecting central heating (not remote heating) fees*
- *A separate account for depositing contributions to the Renovation Fund*

### ***JOpening, Maintaining and Operating Bank Accounts***

*The processes of opening and operating accounts by the condominium is regulated by the resolution of the General Assembly. The original of the resolution or a certified copy thereof should be submitted to the bank. In its resolution, the General Assembly should specify the following.*

- *A list of the kinds of expenses (and their purposes) for which the community of the condominium wishes to open an account or accounts;*
- *Who has the right to operate the account (s) based on the resolution.*

*When the condominium is represented by a Common Representative, the person should be certified by presenting the resolution. When the representative is a managing committee, the resolution of the General Assembly should also specify the name of the member of the managing committee who is entitled to operate the account (s) in addition to the head of the committee. When the representative is a management company, the names of the persons within the management company who have the right to operate the account (s) should be listed.*

*When specifying the person (s) who have the right to operate accounts, it is also advisable to record the persons' name(s) and address(es). The right to operate an account empowers these persons to withdraw money from the account. Based on the resolution of the General Assembly, the bank will open the account in the name of the condominium and handle it as the deposit of the condominium. When opening the account, a decision should be made whether or not the contributions will be collected by the Common Representative or if the co-owners make their payments individually by check. It is advisable to use a non-cash method which can be either a check or a transfer in the case of owners with current accounts at a bank. In order to use this latter method, the co-owner must give an order to the OTP bank branch that maintains his/her account to transfer a specific amount in common expense contribution to the account of the condominium each month. This method is rather common since it is secure and the funds are available to the Common Representative in Time.*

## ***XBook-keeping***

*The Accounting Act No.18 of 1991 also contains provisions for condominiums. In accordance with international accounting principles, the act spells out rules which provide the foundation for reliable and realistic information on the state and financial situation of the property. Under point a, of par 3. of the Act (decree no.157/1992 for the implementation of the Act), a condominium is qualified "other organization" for the application of the Accounting Act. It is regulated by Government Decree No.XII.4.*

### ***ABasic Principles of Accounting***

*Paragraph 15 of the Act specifies the accounting principles that must be observed when questions are to be decided in the course of keeping the books. Basic principles pertinent to condominiums with one-entry book-keeping and simplified balance-sheets are the following.*

#### ***1Principle of Continuous Operation***

*When making the account and keeping the books, the point of departure must be that the condominium can maintain itself in the foreseeable future and thus can continue its existence with no stopping or radical decrease of its operation for any reason.*

#### ***2Principle of Truthfulness***

*The items recorded in the books and included in the accounting must be found to be properly maintained and transparent for outsiders as well. Their evaluation must comply with the principles of evaluation laid down in the Accounting Act and with the pertinent procedures of evaluation.*

#### ***3Principle of Clarity***

*Book-keeping and accounting must be made clearly, intelligibly and in an orderly fashion as required by the Accounting Act.*

#### ***4Principle of Consistency***

*Consistency and comparability in both the content and form of the accounting and the underlying book-keeping must be ensured.*

#### ***5Principle of Continuity***

*The opening items of the calendar year must correspond to the closing items of the previous year. The evaluation of assets and resources and the registration of results can only change according to enacted rules.*

### **6Principle of the Turnover of Money**

*Those keeping simplified balance-sheets must record the income and expenditures in the books at the actual time of receipt or payment.*

### **7Principle of Caution**

*Loss/profit cannot be determined if income is uncertain. When determining the actuals of the current year, foreseeable risks and expected losses can be taken into account by calculating the value loss and creating target reserves even if they become known between the turning day of the simplified balance-sheet and the date of making the balance. Value reductions and losses must be reconciled regardless of whether the overall result of the year is gain or loss.*

### **8Principle of Gross Accounting**

*Returns and expenses along with assets and liabilities cannot be reconciled against each other nor can they be combined.*

### **9Principle of Individual Evaluation**

*In book-keeping, assets and liabilities must be recorded and evaluated individually.*

## **BOne-entry Book-keeping**

### **1Contents of One-entry Book-keeping**

*The contents of one-entry book-keeping are defined by point (1) of paragraph 80 of the Act. It stipulates that the person doing one-entry book-keeping must keep an accounting record of the monetary means in his possession and their sources, as well as of the cash turnover and financial operations which shows the changes in these means and sources truthfully, continuously, clearly and in a closed system. One-entry book-keeping is based on the reconciliation of monetary receipts and monetary expenses (book-keeping of monetary turnover) in connection to which various additional and analytic records must be kept continuously as required by the simplified balance sheet showing the financial standing of the condominium and the performance of other requirements. Data on stocks necessary for making the balance*

*are ensured by inventories. A law-bound central requirement of one-entry book-keeping is that all entries in the registers must be based on vouchers. Under the Accounting Act, the person responsible for the continuity of book-keeping and the truthfulness of data entered is the person authorized to represent the condominium (Common Representative, president of Executive Committee). Accordingly, the account compiled on the basis of regularly kept books is to be approved by the General Assembly of the condominium and signed by the person entitled to represent it.*

## **2Book-keeping of Money Turnover**

*Paragraph 80 of the Accounting Act specifies the requirements of the accounting of monetary turnover. The registration system applied must be such that the entire monetary turnover be shown in a closed form ensuring the congruency of accounting and also providing the data of monetary turnover necessary for tax accounting. The book recording the monetary turnover actually means the book-keeping of the bank account and the cash turnover. The difference or balance between the income and expense turnover of the bank account and the cash constitutes the actual balance of account and amount of cash. Therefore, in the registration of money turnover, the balance must be shown both of the bank account and the cash, which must be equal to the closing balance of the bank statement at the point of time of issue and to the actual amount of money in the cash box. The exact correspondence proves that the cash turnover should be recorded in the books without fail and numbered correctly.*

*The book-keeping of monetary turnover as defined by the law is to register the monetary means in the bank account and in the cash box by their source, to monitor and record their use and their transformation into other financial means within a closed system.*

## **3Ledger**

*In the case of one-entry book-keeping, the accounting of condominiums is to be done in the ledger. The ledger is a standardized printed document which is to be authorized by the tax authorities before opening. Book-keeping in a ledger is an accounting technique concentrating on monetary turnover, which arranges the mobility of money and financial accounts in a transparent and systematic way. The indicators of the cash turnover items posted should also be entered into the ledger.*

## **4Indicators**

*aSerial number (renumbered);*

*bDate;*  
*cNumber of the document;*  
*dText.*

### **5Cash Turnover Entries**

*aBank account: deposit and withdrawal balance;*  
*bCash: deposit and withdrawal balance.*

### **6Detailing Entries**

*aSales income and other income;*  
*bOther income that do not generate profit;*  
*cProduction/managing costs and other expenses; purchases of materials*  
*and goods;*  
*dSalaries; taxes on salaries;*  
*eOther production/managing costs and expenses;*  
*fEmpty entry for free use.*

### **7Other Expenses**

*aDeductible VAT;*  
*bReceivables: Increase Decrease;*  
*cPayables: Decrease Increase;*  
*dPosting the financial profit/loss; decrease/increase*  
*eShare capital and reserves; decrease/increase.*

*A posting into the ledger can only be made based on an accounting document completed properly and only when the economic event involves movement of actual cash (transfer). An accounting document can be any internal or external document whose purpose is to serve as a record of an economic operation. Legal rules spell out that the monetary turnover items be posted in the ledger parallel with the mobility of cash or the receipt of the bank notification. Entering in the detailing entry is done simultaneously with the income-expense columns of the bank or cash invoices.*

### **8Rules about How to Post the Different Kinds of Cash Turnover Items in the Ledger**

*The cash turnover items between the bank account and the cash should always be entered in the expense column of one cash turnover entry and in the income column of the other cash turnover entry. When posting any other cash turnover item, income*

*and expense should always be entered in one cash turnover entry and in one detailing entry. When closing items, they do not have to be posted in a cash turnover entry nor do they have to be entered in a detailing entry only. Some of the detailing entries have one column, while others have two columns.*

*When using the two-column entries, one always has to start with the cash turnover entry. If the item is to be posted in the income or first column of the cash turnover entry, then parallel to that the amount is to be entered in the second column of the related detailing entry. If the item is to be posted in the expense column of the cash turnover entry, then parallel to that the amount is to be entered in the first column of the related detailing entry.*

### ***9The Relationship Between the Entries of the Ledger***

*There is a strict relationship between the cash turnover and detailing entries of the ledger. This relationship can be used when checking the correctness of accounting. The figures of postings should be checked for correctness at least once a year as part of the process of closing the books at end of year. The best way to check figures for correctness is to do it page by page in the ledger. The process of checking and/or reconciling is substantially simplified by the carry forward (closing) line of the ledger form. The carry forward line has two lines where the totals of the various entries should be clearly stated. The totals of the two carry forward (closing) lines should be equal. If this is the case, the figures of the postings in the ledger are correct. The fact that the two totals equal each other do not guarantee, however, that the content of postings are correct.*

### ***10Opening the Ledger at the Beginning of next Year***

*The first thing to do when entering postings on January 1 is to post the opening items in the course of which the closing items from the previous year are put in the entry columns that are opposite to the closing items columns.*

### ***11Ledger Related Analytical Records to Be Maintained Obligatorily***

*In addition to posting cash turnover items in the ledger, analytical records should be maintained. These would include the required details of the ledger items as well as the non cash turnover items that do not have any effect on profit and loss and equity calculations.*

## ***12List of Required Records***

### ***aMaintenance of Debtors***

*Condominiums are required to maintain Debtors who accept payments against sales not only in cash. Related records must include the details of each invoice that has not been paid or issued against cash (date of invoice, buyers name, grand total of invoice amount of VAT, date of settlement, amount of settlement). The records must be closed at the end of the year. The amount of receivables must be calculated by adding up the amounts of unsettled invoices and based on the total amount of VAT charged.*

### ***bMaintenance of Creditors***

*This only applies to those having to maintain Creditors who settle their procurement and services not only in cash. Related records must include the details of each invoice that has not been settled in cash or received against cash in the same way as Debtors are maintained. At the end of the year, the records must be closed. The amount of payables must be established by adding up the unsettled invoices and based on that the amount of VAT charged in advance.*

### ***cMaintenance of Payments on Which Income Tax Is to Be Paid***

*Related records must be kept according to a person by person breakdown including the persons' legal position (employee pensioner employee, etc.). Those earnings items that are to be added to the tax base, are to be maintained separately from the items that are not to be added to it (on which withholding tax is to be paid). In relation to the earnings items paid to employees that are to be added to the tax base the following additional details must also be recorded: date of payment, gross amount of the salary or wages, the personal income tax advance deducted from the gross amount, the amount of superannuating contribution deducted from the gross amount, any other deductions and the amount paid. Regarding the earnings items paid that are to be added to the tax base, records must include: the date of payment, the gross amount of earnings, deductions and the amount paid.*

### ***dMaintenance of Material Assets***

*The kind of material assets that can be bought by a condominium are the following: pavement cleaning machine, lawnmowers, and computers. Under*



*the Accounting Act, the purchase value (price) of material assets equals to all the money paid for the procurement and commissioning of the asset up to the date of commissioning including any expenses that can be directly linked to the asset. Therefore, the following items are considered to be part of the purchase value: purchase price (excluding vat), transportation cost, cost of building foundation, cost of assembly, cost of commissioning, and customs duties. When commissioning a material asset, the minutes to be created can be found in Appendix 6. Based on the gross value defined in the minutes, an individual asset inventory card is to be prepared in the format as per Appendix 5. Material assets with a value under HUF 20 000 are also to be recorded for security reasons.*

#### *eVAT Maintenance in Compliance with the Tax Law*

*In a chronological order and with reference to the related document in a separate entry, records must include the following: the amount of sales that serves as a basis to charge vat, the amount of vat to be paid on the income received against the amount of sales, and the amount of vat charged in advance for invoices posted as expenses. Any settlement against the vat budget.*

#### *fMaintenance of Securities and Investments*

*Analytical records must be kept on the securities and investments that are possessed by the condominium. Records must include the following: date and value of the acquisition and/or investment, date and value of sale and/or withdrawal.*

#### *gRules on How to Make Inventory Linked to a One-entry Book-keeping*

*Those who use the cash turnover accounting method have to make such an inventory in order to prepare the simplified balance-sheet. This includes an itemized list of the quantity and value of assets and liabilities on the rule-off date of the simplified balance-sheet (December 31). About assets and liabilities for which the value is maintained only the inventory is to be made based on the book values that are to be confirmed by reconciliation. Assets and liabilities that are to be maintained both in quantity and value an inventory are to be taken on the rule-off date (December 31) in the following way: For the assets on which no quantity and value records had been kept in a way as it is specified by accounting requirements only the quantity is to be established. For the assets on which both quantity and value records had been*

*maintained, the inventory is to be taken based on data valid on the rule-off date.*

### **13Settlement of Income**

*Income of the condominium must be recorded in the appropriate cash turnover entry as well as in the detailed entry. Income earned from interest, received indemnification, conventional fines, income received from the sale of different items, amounts received after re-claiming the VAT and funds received for the provision of different external services must be settled as "other income." A different section details requirements concerning the VAT. At the same time, this must be recorded in the analytical bookkeeping according to appendices 4 and 4/a.*

### **14Settlement of Costs and Expenses**

*Incurring costs and other expenses must be recorded in the appropriate cash turnover entry as well as in the detailed entry. The acquisition of materials and goods (cleaners, etc., for example) is posted to the "Acquisition of Materials and Goods" entry. Goods and equipment are settled in the ledger as expense at the time of acquisition. Tangible assets must be taken into inventory regardless of the fact that they have been settled as expense in the ledger. Solid, liquid and gaseous energy supply expenses, power supply expenses, water supply and sewage disposal expenses are to be settled in the "Utilities Fee" entry. Gross salary amounts, other payments to persons, professional fees, meal contributions, amounts paid as reimbursement for the use of vehicles in private ownership for official purposes, representation costs, commission fees and other payments to the general representative or other elected officer are posted to the "Salary" entry. Keeping a separate detailed register by titles is also effective. When salaries, professional fees and commission fees are settled, the gross amount is to be calculated with a separate expense entry filled out for the gross amount and an income entry for deductible items. This may include fees for personal income tax, health insurance, social security tax, employee contributions, etc.. Amounts accounted and paid after salaries are posted to the "Social Security Tax" entry. Other costs and expenses not listed so far (transportation, insurance, banking, court expenses, taxes, interests, etc.) have to be settled in the "Other" costs and expenses entry as well as in the appropriate cash turnover entry. This entry contains the cost of renovating and maintaining the building and the value of acquired tangible goods. Amounts of the VAT are settled in the "Prepaid VAT" entry.*

### **15Receivables**

*The entry for receivables is divided into two columns in the ledger: addition and*

decrease. The turnover balance of the two columns shows the current amount of receivables settled in the entry. The following may be regarded as receivables: Securities, financial receivables handed over temporarily and other receivables. Cash advances, provisions, employee receivables and budget receivables.

### **16 Payables**

The condominium may receive income which is actually not an income for the condominium because at the time this amount is received a paying obligation arises. This must be recorded in the ledger. The payables amount is to be settled with a payment. After the payment the liability ceases to exist. There are two columns in the ledger for posting payables, the decrease and addition column. The most common debit-type financial settlements are personal income tax advances deducted from salaries and commission fees, health insurance and social security contributions as well as other deductions not to be paid to the condominium.

### **17 Profit and Loss**

The financial profit and loss (P/L) is the yearly accumulated balance of the income entry and the cost/expense entries of the ledger. If the turnover in the income entries is greater than the turnover of the cost and expense entries, a profit was earned. In the opposite case a loss has occurred. Posting P/L is done according to the following principles.

#### **a Totals**

The finalized totals of the detailed income and expense entries must be determined. The total of the detailed income entry must be put in the "additions" column of the P/L settlement. The total of the detailed expenses must be put in the "Decrease" column of the P/L settlement. After posting the P/L, the detailed income and expense entries must not have a closing balance.

#### **b Ledger Rule Off**

According to applicable accounting regulations, the ledger must be ruled-off once a year. Nevertheless, rule-off and reconciliation must be done for every page and in each month. The end of year rule-off of the ledger consists of the following tasks: posting the necessary reconciliatory items (with the description and depreciation of receivables maintained in the ledger, items concerning financially non-reconciled VAT settlements), reconciling data from the maintained analytical registers concerning entries of the ledger with data from

*the ledger, reconciling the closing balance of the "Cashier" entry with the actual cash amount, reconciling the closing balance of the bank account(s) entry(ies) with the closing balance(s) from the bank statement(s), checking and ensuring that the appropriate turnover figures are in the ledger balance.*

### ***cSettlement of P/L***

*This requires the posting of totals and determining the total turnover. Basically, checking the correctness of cash turnover figures is ensuring that the cash turnover posted to the bank account and cashier entries balances with the turnover posted to the detailed entries. The following must balance:*

<i>Entry</i>	<i>I</i>	<i>Turnover</i>	<i>II</i>
<i>Bank Account</i>	<i>Income</i>		<i>Expenditure</i>
<i>Cashier</i>	<i>Income</i>		<i>Expenditure</i>
<i>Final Income</i>		<i>Income</i>	
<i>VAT to be paid</i>		<i>Income</i>	
<i>Final Expenditure</i>	<i>Expenditure</i>		
<i>Deductible VAT</i>	<i>Expenditure</i>		
<i>Payables</i>	<i>Additions</i>		<i>Decrease</i>
<i>Payables</i>	<i>Decrease</i>		<i>Additions</i>
<i>P/L</i>			
<i>Settlement</i>	<i>Decrease</i>		<i>Addition</i>
	<i>Total I</i>		<i>Total II</i>

*After completing a page in the ledger, a rule-off should be done and that would give the amount for carrying forward. Special attention must be paid to fill in the amounts only into the empty entries. The "debit" items should be written into the top row and "credit" items into the bottom row.*

### ***dPage Reconciliation***

*The total of the top rows must balance with the total of the bottom rows. An*

*end-of-month rule-off should be done each month and that should consist of checking the actual content of the ledger as well as reconciling the figures. The reconciliation of figures consist of the same kind of checking as a page rule-off. Checking the content of the ledger would, among other tasks, include the following: checking the balance of the bank and cashier entries against the statement and available cash, reconciling the rental fee "Income" entry with the analytical record, comparing the amount entered in the paid and pre-paid VAT entry with the recorded VAT amount, verifying that the balance of the personal income tax, health insurance, and social security entries corresponds to amounts not yet paid.*

*Closing items have to be posted to the bank, cashier, receivables, payables, and P/L entries so that the balances are written with the opposite sign in front and added up in the next row.*

### **CStatutory Reporting**

*Condominiums with single-entry bookkeeping must prepare a simplified balance sheet at the end of the year. The structure and contents of the simplified balance sheet are specified by law. Data in the simplified balance sheet has to be prepared in accordance with the ledger, analytical records, and actual inventories. The structure and contents of the simplified balance sheet have to meet the requirements specified by law.*

#### **1Break-down of the Simplified Balance Sheet**

##### **ASSETS**

##### **A. Investments**

- 1. Non Tangible Goods*
- 2. Tangible Goods*
- 3. Invested Financial Assets*

##### **B. Working Assets**

- 1. Inventories*
- 2. Receivables*

##### **LIABILITIES**

##### **A. Own Capital**

- 1. Capital Subscription*
- 2. Changes in Capital*

##### **B. Specific Reserves**

##### **C. Payables**

- 1. Long-term Payables*
- 2. Short-term Payables, deductible*

- a. *Receivables in arrears*
- b. *Other Receivables*
- 3. *Securities*
- 4. *Financial Assets*
- 3. *VAT of payables*

## ***2Regulations Concerning Specific Items of the Simplified Balance Sheet***

*For condominiums, intangible goods are usually marketable rights (right to lease, right of way). Only those tangible goods must be shown which will be part of the operation of the condominium for more than one year like the following*

- aReal estate;*
- bTechnical equipment;*
- cMachines and vehicles;*
- dInvestments;*
- eInvestment advances.*

*With invested financial assets, the value of long term bank deposits, receivables maturing over one year, the value of purchased securities and bonds must be indicated. Inventories contain tangible goods to be used up within one year: materials, goods, bales, etc. Customer and employee receivables and debts in arrears are to be shown with receivables. Among other receivables, only posted and recorded receivables may be taken into consideration: loans granted to employees and members, lending short term financial assets and amounts paid as tax in the current year that cannot be settled as costs but can be re-claimed. The cost of purchasing short term securities (no long run investments) may be settled as a security purchase. Petty cash and the closing balance at roll-over date of bank accounts are shown with financial assets. When detailing own capital, the difference between assets and liabilities from the simplified balance sheet must be indicated as reserve with the appropriate sign in front. Funds borrowed for a period longer than one year, reduced by the amount which will be repaid, must be shown with long term payables. Among other payables, only payables posted and recorded in the single entry bookkeeping may be shown: deducted, but still not paid health insurance and social security contributions and taxes not yet paid which cannot be settled as expenses but occur in the current year.*

## ***3Additional Records (analytical accounts)***

*Taking into consideration that only cash turnover items are recorded in the ledger, it is necessary to maintain items not belonging into this category and any occurring changes applicable to them. Keeping detailed records is necessary for those entries which contain more than one title, such as the already mentioned salaries, receivables and payables maintained by titles, etc. These records do not form a closed system with the cash turnover accounting, but their maintenance is necessary for keeping up with the current situation and for preparing reports. Additional records include:*

- aReceivables;*
- bPayables;*
- cTangible goods;*
- dNon-tangible goods;*
- eMaintenance of receivables including: debts of customers, advances, employee receivables, payables of members and renters.*

*Long term and short term payables must be shown separately. In the delivery records only those amounts have to be recorded which are not paid for in cash. The individual records have to be taken into consideration with tangible goods. According to accounting regulations, the value of tangible goods acquired for less than HUF 20,000 can be settled as depreciation deduction. Therefore, these do not have to be recorded and may not appear in the simplified balance sheet.*

#### ***4Inventories***

*According to accounting regulations an inventory containing the itemized listing of the quantity and value of the condominium's assets and liabilities, which can be checked, must be prepared for a simplified balance sheet.*

#### ***DTaxation of Condominiums***

##### ***1Tax Regulations***

*On December 8, 1992, Parliament modified Act XCI of 1990 XI taxation which also affects condominiums. According to tax regulations the following qualify as tax authorities.*

- Office for Tax and Financial Auditing and its committees;*
- National Customs and Financial Bureau and its committees;*
- Notary of the Local Government;*
- Central Office for Computation of Rates and Duties.*

*The condominium, as taxpayer, has the following obligations in order for taxes to be assessed:*

- *Submitting tax returns and statements.*
- *Tax assessment (individual tax returns, assessing taxes for the employer/payer);*
- *Tax return;*
- *Payment of taxes and tax advances;*
- *Issue and safekeeping of advise;*
- *Keeping records (bookkeeping);*
- *Submitting data;*
- *Tax deductions, tax collection.*

*If the condominium has an arising tax liability (salary, commission fee or professional fee paid to the Common Representative or income resulting from utilizing common property) it must apply to the appropriate first degree tax authority within 15 days of the event. The application requirement towards the tax authorities can be satisfied by using form no. 94201. (The title of the form is: Application Form for Legal Entities, Associations Without Legal Entity and Other Organizations). Rules for applying, declaring the tax obligation, as well as rules for the safekeeping are specified by law.*

*The general rule concerning filing tax returns, tax assessment and payments to state and local government tax authorities is that the amounts need to be rounded to the nearest HUF 1000 amount, except for the personal income tax of private individuals and land tax (from HUF 499 rounding down, from HUF 500 rounding up). The condominium must file a yearly tax return for each different type of tax following the year to be taken into account for taxation purposes in the order of payment deadlines, declaring in detail data necessary for determining the tax base, applicable tax exemptions, concessions and the basis for these concessions, and the amount of tax. This obligation exists even in the case when the condominium has fulfilled its obligations towards the tax authorities or when it would fulfill them at a later date.*

*According to article 20 (sections 5 6) of the law on taxation, the tax return must be submitted even in cases when no tax payment obligation exists in the given year, when tax has already been paid or will be paid later on.*

## **2Value Added Tax**

*According to legal regulations, taxpayers have to pay the VAT after domestic sale of goods, provision of services and after imported goods. The taxpayer is the natural*



*person, legal entity, or organization without legal entity who (which) can acquire rights for itself, accept responsibilities and perform economic activities for its own. The owners' association is the taxable person in relation to movable property and real estate which is jointly owned and used. Cases of condominiums renting jointly used real estate and activities of condominium employees performed on external request are the occur most often in the categories of sale of goods and provision of services. (The VAT categories starting January 1, 1994, are the following: 0%; 12%; 25% (reversed 20%.))*

*The tax is always 25% except for goods and services specified by law.*

*When a condominium is established, tax authorities must be notified and a tax identification number is issued for the condominium. At registration the condominium must indicate whether:*

- It will be liable to paying the VAT;*
- It chooses subject based or object based tax exemption.*

*In case the actual income of the condominium for the previous year or the planned income for the current year does not exceed HUF 500,000, it may choose subject based tax exemption. Condominiums choosing subject based tax exemption are not liable to pay taxes but they also cannot exercise their right for tax deductions. The tax exemption lasts until the end of the tax year. After this period, the condominium has the opportunity to chose again.*

*Subject based tax exemption ceases to exist if the income of the condominium exceeds HUF 500,000 in the current tax year, apart from income resulting from performing activities falling into the object based tax exempted category. Subject based tax exemption which ceased to exist cannot be chosen again by the end of the second tax year following the termination of the right. For the period of subject based tax exemption, the condominium cannot request tax deductions in the future. The condominium may chose the object based tax exemption if it performs activities which fall into the object based tax exempted category defined by law. The condominium is not obliged to chose subject or object based tax exemption if its income does not exceed HUF 500,000 or if it performs activities which fall into the object based tax exempted category; it may choose to pay the VAT.*

### ***3Arising Tax Liabilities***

*Tax liabilities arise at the date indicated as execution date on the invoice, simplified invoice and document substituting the invoice issued after the service has been*

*performed, except in cases specified by law. When a simplified invoice is used, the execution date is the same as the date of issuing the simplified invoice. With services provided continuously, the execution date is the due date of a particular installment. Condominiums with single entry bookkeeping have arising tax liability at the time of paying the counter value, taking the actual amount paid into consideration. Special attention must be paid to the following significant change in regulations: advances received for payment purposes that can be counted towards the counter value and have been liable to tax since 1993.*

#### **4Tax Deductions**

*The right for tax deduction may be exercised only by those taxpayers who have single or double-entry bookkeeping and who choose to pay the VAT. The right to deduct taxes may only be exercised if the taxpayer has an authentic document indicating the amount of payable tax. Such documents are the following:*

- *Invoice;*
- *Simplified invoice;*
- *Document substituting an invoice;*
- *Resolution stating the amount of tax;*
- *Other documents and advises which contain authentic data suitable to determine the amount of tax.*

*A taxpayer with single-entry bookkeeping has the right to deduct taxes at the time of paying the counter value up to the actual paid amount. If the taxpayer performs activities which are liable to tax and also others that are not liable to tax, the amount of tax calculated in advance must be separately maintained, since only tax resulting from the performance of taxable activities may be re-claimed. If activities liable to tax and those not liable to tax cannot be clearly separated, a proportioning method must be used for dividing the amount into a deductible and a non-deductible part. Rules on proportioning are contained in the first part of the law's third appendix.*

*Accordingly,  $L = A \times LH$  and*

*$N = A - L$ , whereas*

*A: amount of tax used in the proportioning;*

*L: deductible part of tax;*

*N: non-deductible part of tax;*

*LH: deduction ratio, which is the result of the following ratio nominator: income resulting from tax deductible activities calculated without the amount of tax  
denominator: value of the nominator added to the value of income resulting from nondeductible activities.*

*When calculating the deduction ratio, budget assistance and other received funds, contributions, etc. concerning nondeductible activities qualify as income. The deduction ratio must be calculated to four decimals.*

### ***5Exceptional Cases of Re-claiming Tax Connected with Condominiums***

*When purchasing a finished apartment or one that has not been finished yet, when building, expanding, or upgrading an apartment in own arrangement or in own execution, natural persons, construction collectives and condominiums may reclaim up to 60 percent of paid taxes. For products and services for which VAT may be re-claimed different legal regulations will be set up. Re-claimed amounts per apartment may not exceed the following values:*

- *Purchasing an unfinished or finished apartment or building one: HUF 400,000;*
- *Building additional rooms: HUF 200,000. Upgrading the apartment: HUF 50,000.*

*Tax may be re-claimed upon receiving a request from the taxpayer. The re-claimed amount is to be determined in a tax authority resolution.*

*A condition for reclaiming tax is that the person submitting the request attaches the invoice or simplified invoice filled to contain his/her name, the proprietorship register indicating proprietary rights or a request for acquiring proprietary rights in case of an unfinished or finished apartment, in case of building an apartment or building additional rooms a construction permit and in case of upgrading an apartment the cost projections for the planned construction. The smallest amount to be reclaimed is HUF 10.000, except for the last re-claim.*

*Requests for re-claiming may be submitted to tax authorities by the following deadlines.*

- *Within 6 month after acquiring ownership in case of purchasing unfinished or finished apartments;*
- *Within 6 months after obtaining the permit for use in case of building an apartment or building additional rooms.*
- *In a case of upgrading the apartment, by March 31st of the second year following the submission of the projected budget to tax authorities.*

*After this date condominiums may re-claim General Sales Tax only according to the applicable standard regulations since their status will be equal to the status of a tax payer.*

## **6Renting Common Property of the Condominium**

*The condominium may rent its common property by signing a contract for rooms, apartments, shops, basements, etc. According to the General Sales Tax Regulations the provision of residential and other supplementary services (SZJ 11111), the utilization of real estate (SZJ111900), as well as handling residential real estate (SZJ112100) are not liable to tax; the provision of parking space is an exception to this (SZJ111112). Renting an apartment for commercial purposes is liable to a 10% General Sales Tax. Renting the apartment for any other purpose is liable to a 25% General Sales Tax.*

## **7Personal Income Tax**

*These are regulated by the XC Act of 1991, amended (amended XLI 1993 Act). According to article 3, section 16 of this law, as well as according to article 97 of the amended 1990 XCI Act on taxation, a condominium is classified as a payer. According to the above mentioned legal requirements, all regulations applicable to payers are applicable to condominiums as well. A payer must deduct the tax advance from the salary of its employees and pays this amount. According to the tax return of the employees received by the end of the year, if the employee does not have any income apart from his or her primary occupation, the payer calculates the payable tax, files the tax return, pays the necessary amount, and in case an excess amount was paid, pays back the necessary amount. In case the employee has a secondary occupation or has another regular source of income, the payer deducts the personal income tax advance and pays the amount. For all other income liable to paying tax advances including all income not resulting from the primary occupation of the employee (occasional work) which does not exceed the amount of HUF 3.000, it deducts the amount of tax (40 percent withholding tax).*

*Private individuals also have the legal right to combine a smaller amount of income with their other income liable to tax (this requires a written statement). In this case, the condominium deducts the tax advance but not the withholding tax from the employee's income. The private individual must combine this income with all other income liable to tax in his or her tax return. For those private individuals who declare that their yearly combined income, including smaller amount payments, does not exceed HUF 110.000 (for a retired person this limit is HUF 108.000) the condominium does not need to deduct a tax advance.*

*The General Assembly of the condominium has the right to vote for a professional fee to be paid to one of its employees based on his or her work. This may be done in one amount or in monthly installments. This income falls into the category of earnings*

*obtained from independent activities, from which certified and existing costs may be deducted. Therefore the income earning private individual will do a tax self-assessment (SZJA act, articles 12-13).*

### **8Utilization of Common Property**

*Utilizing common property may consist of the following.*

- *Rooms;*
- *Land and garden;*
- *The wall of the condominium for advertising purposes;*

*If utilizing common property results in income for the condominium, the law on personal income tax specifies that the co-owners must pay a 20 percent withholding on the income. This is regardless of the number of contracts or whether the income will be paid to the owners or used to directly cover general costs. It is of no importance whether the income resulting from this activity is liable to the General Sales Tax or not. The condominium, because of its status as a payer, needs to deduct the tax from the income and transfer it to the tax authorities. This tax does not have to appear in the tax return of the condominium co-owners because the condominium is liable to tax.*

*It may happen that the condominium sells common property (storage space, garage, laundry room, roof space, housekeeper's apartment, business space, etc.). The condominium declares this income according to articles 22 and 24 of the personal income tax law. In this case the condominium must only assess the income for each property share. Private individuals do a self-assessment of tax after selling real estate.*

### **9Employer and Employee's Contributions**

*The employer (the condominium) must pay monthly employer's contributions after the gross income earned from economic activity. The rates are the following:*

- *until March 31, 1994: 7.2%*
- *after April 1, 1994: 5%.*

*The employee contributions are paid after the gross income received from the employer in the primary occupation of the employee, i.e. they are deducted monthly from the salary of the employee. The rate is 1.5% A tax return must be filed (no. 3) for the monthly contributions by February 15th of the year following the year to be*

*taken into consideration for taxation purposes.*

### **10Tax Calendar**

*The employer must pay a tax advance for the amount of deducted income tax. This amount must be paid by the 20th of the month following the month to be considered for taxation.*

*Because of the condominium having a payers, i.e. an employers status, it must provide details about the income paid to its employees during the year, about the tax advances deducted from these incomes and about the personal data of the employees (Article 41, Section 4 of the Personal Income Act, Data-Provision).*

*The deadline for supplying the necessary data is March 31 of the year following the year to be considered for tax payment. The completed forms need to be sent to the tax authorities with a data cover sheet. One copy of the form and three copies of the data cover sheet must be submitted. Apart from this, the condominium must also submit a tax return with an indicator no. 3 to the tax authorities by February 15 of the year following the year which should be considered for taxation purposes (indicating the types of taxes).*

### **11General Sales Tax**

*General Sales Tax must be paid by the 20th of the month following the one to be considered for taxation purposes; tax may also be re-claimed after this date.*

### **12Employer's and Employee's Contributions**

*Employer's and employee's contributions need to be paid by the 20th of the month after the settlement month. Tax payables maintained by the tax authorities must be paid to the specified accounts which are maintained for the different types of taxes (kept with the National Bank of Hungary or with the OTP.).*

*The account numbers are the following:*

	<u>MNB</u>	<u>OTP</u>
<i>Personal Income Tax</i>	232-90605-6359	548-263352
<i>General Sales Tax</i>	232-90107-6864	548-168640
<i>Employer's Contributions</i>	232-90605-6005	548-260052
<i>Employee's Contributions</i>	232-90605-6012	548-260122

### ***ESocial Security Commitments of the Condominium***

*The condominium must pay a 44 percent Social Security tax after the salary of its employees whose primary occupation is secured by the condominium and the employee must pay a 10 percent superannuating tax. The contribution must be paid to the Social Security Directorate by the 10th of the month following the one to be considered for taxation purposes. The payment commitments must be reported monthly in a list to the appropriate Social Security Directorate.*

*Duties which may occur when the condominium has employees:*

<i>Employment</i>	<i>Social Security Obligation</i>
<i>1. Primary occupation</i>	<i>44% social security tax 10% superannuating tax</i>
<i>2. Non-primary occupation</i>	<i>44% social security tax 0% superannuating tax</i>
<i>3. Agent fee above HUF 180 per day if primary occupation exists</i>	<i>44% social security tax 0% superannuating tax</i>
<i>if no primary occupation exists</i>	<i>44% social security tax 10% superannuating tax</i>
<i>4. Professional fee if primary occupation exists or the person is retired</i>	<i>44% social security tax 0% superannuating tax</i>

*A late payment penalty fee of 4 percent monthly must be paid when the condominium does not fulfill its payment obligation by the specified deadline.*

*A regulatory penalty fee of up to HUF 50.000 must be paid in case the condominium does not fulfill the requirements specified by law or does not fulfill these requirements in the defined manner in the following areas: reporting, maintenance and tasks concerning social security commitments.*

### ***FLocal Taxes***

*Condominiums are liable to local taxes.*

### ***1Local Taxes in General***

*The basic responsibility of residential local governments is the provision of local public services. Such tasks must be accomplished with the characteristics of the given environment being taken into consideration. Therefore conditions for an independent economic managing of local governments have to be established. One way of doing this is the system of local taxes. The amended 1990. C. Act on local taxes, which has taken effect January 1, 1991, authorizes residential (community, urban, metropolitan and district) local governments to levy local taxes on their territory. According to legal regulations the local government is authorized to levy the following types of taxes.*

- Property-based taxes (building and land taxes);*
- Community type taxes (public utilities, tourist industry taxes);*
- Local entrepreneurial tax.*

*From the above mentioned types of taxes, the building tax, from the group of property based taxes, is applicable to condominiums as well as the local entrepreneurial tax.*

### ***2Building Tax***

*All buildings or parts of buildings used for residential or non-residential purposes found within the jurisdiction of the local government are liable to building tax. The land necessary for the proper use of the building is also considered to be part of the same building. All rooms within the building, regardless of their purpose , are liable to tax.*

#### ***aItems Liable to Building Tax***

*According to article 12 of the law, the subject liable to tax is the owner in whose possession the building is on January 1st of the current year. In case of multiple owners, the owners are liable to tax according to their share of property. If a registered legal right exists for obtaining benefits by utilizing the building (rent or lease), the person liable to tax may exercise this right. In case of a condominium, garage or resort area, the owners are independently liable to tax. Therefore the given community is liable to tax for the utilization of common property.*

#### ***bExemptions from Building Tax***



*Article 13 contains regulations on tax exemptions. In cases of condominiums and resort areas buildings and parts of buildings which may be exempted from the building tax are the following: Rooms used by (or rented out for such purposes) social, health and child care, as well as educational institutions, historic buildings and other property belonging to the residential or resort area.*

#### *cAssessing and Terminating Tax Liability in Case of Building Tax*

*Tax liability will take effect the first day after a usage or residuary permit has been issued. Tax liability is terminated on the last day of the year during which the building has ceased to exist. Terminating the use of the building does not effect tax liability.*

#### *dBuilding Tax Base*

*The base for tax depends on the decision of the local government and it is established in one of the following ways: Useful internal floor area of the building measured in m<sup>2</sup>. The modified cash value of the building.*

#### *eBuilding Tax Rates*

*The upper limit of the tax rate is the following: In case of using the available area expressed in m<sup>2</sup>. In case of using the cash value: 3 percent of the modified cash value.*

#### *fPaying the Building Tax*

*Section 14, Appendix 2 of the amended 1990 XCI Act defines the deadlines for paying the building tax: the subject liable to paying the tax must pay this in two equal installments. The first installment being paid by March 15th of the current tax year and the second by September 15th of the current tax year. If the assessment of tax has not occurred by the given deadlines, paying the tax has to be done in the way and considering the deadlines specified by the local government. Article 28 of the above mentioned law specifies that tax payers with bank accounts must fulfill their obligation by transferring the funds. Those who do not keep an account must use a transfer or domestic postal order. The amount of tax payables to the local governments must be transferred to the tax account specified by the local government. According to legal regulations, the owners of the condominium, because of their status of private individuals, are liable to paying both types of taxes. These include the*

*building and land tax, as well as the community-type public utility and tourist industry taxes.*

### ***3Entrepreneurial Tax***

#### *aTax Liability*

*The local entrepreneurial tax took effect September 5th, 1991. From this date on, every person who is involved in a domestic, business-type economic activity, being at his or her own risk, for the purpose of earning a profit, and whose activities are legally classified as entrepreneurial activities, as well as: A legal person. Other organization. Whosoever is involved in business-type activities is liable to pay taxes under the jurisdiction of the Metropolitan Local Government.*

#### *bTax Exemptions- Tax Allowance*

*In the following cases the local entrepreneurial tax does not have to be paid: In cases where the yearly net income resulting from catering and trading activities does not exceed HUF 1.000.000 and in other cases of sale where the amount does not exceed HUF 300.000. The entrepreneur must report to the tax authorities the expected yearly amount of tax for the current year within 15 days of the start of the business-type activity or within 15 days after the local government regulation about levying the tax has taken effect.*

#### *cAssessing and Paying Taxes*

*The yearly tax advance must be paid in two equal installments by March 15th and September 15th. The entrepreneurial tax advance must be 90 percent of the expected yearly amount of tax and the remaining obligation must be fulfilled by December 20th. Tax payments, including tax advances, will be directed to the Metropolitan Local Government tax collection account no. 218-98969 548-490019-0859 kept with OTP Communal Branch. The difference between the assessed tax advance and the amount of the yearly payable tax is to be settled in the tax return which must be filed by May 31st of the year following the year to be considered for taxation purposes. The differential is to be paid by the deadline for submitting tax returns or it may be re-claimed after this date.*

#### *dDefinitions*

*Tax Base = The tax base is the net income received from the sale of products or provision of services.*

*Tax Rate = 8 per thousand of the yearly net income*

*Net Income=Net income resulting from sales as defined in the accounting law: The net income resulting from entrepreneurial activity or cash turnover needs to be taken into account depending on the applicable accounting regulations for housing co-operatives, condominiums, foundations, social organizations, institutions founded by those above mentioned, etc.*

## **GDokumentation**

### **1General**

*Documentation requirements as well as rules concerning journal entries are contained in articles 84 to 87 of the 1991 XVIII Accounting Law. According to the law on accounting, for every economic transaction and event which changes the set of registered assets, as well as the source or configuration of registered assets, a journal entry must be concluded. The details of the journal entry must be recorded in the accounting register. The law also specifies that only details of correctly filled journal entries may be recorded in accounting registers. Every external and internal document prepared in order to record the accounting details of an economic transaction and event may be taken for a journal entry. Requirements concerning the format and the content of a journal entry are specified by law. In order for a journal entry to remain authentic and appropriate, it is important that all eventual corrections are done in the proper fashion.*

### **2Modifications**

*The most important rules concerning modifications on journal entries are the following: When modifications are done, the original entry must be crossed out in such a way that the entry still remains readable. The modified data will be written above the crossed out number or text. The date of the modification and the signature of the person doing the modification needs to be recorded. Cashier's and banking advices must not be modified. A new journal entry will be filled out instead of the old, incorrect one and all reversed advices (and their copies) must be saved. Journal entries issued by a third person must not be modified! It is the duty of the issuer to correct a journal entry filled out incorrectly or to issue a new or corrected journal entry after canceling the old one. The journal entry needs to be issued at the time of the economic transaction or event or at the time when the economic intervention is*

*taking place. Recording the accounting details of journal entries must be done according to the following regulations: Details of journal entries issued for economic transactions affecting financial assets must be done parallel with the transfer of funds, at the same time when the financial institution notification arrives, by the 15th of the month following the month in which the transaction was executed. Journal entries for other economic transactions and events must be recorded after the economic transaction or event has taken place but before the accounting rule off date (only if other regulations do not specify this differently).*

### **3Pre-Numbered Forms**

*All forms necessary for handling cash or those which may be misused by an unauthorized person must be handled and registered as pre numbered forms. All pre numbered form registers must contain the following*

- *Name and number of the form;*
- *Date of purchasing the form;*
- *Serial number of the block (from - to);*
- *Date the block was first used;*
- *Date of use;*
- *Date of discarding the block.*

### **4Safekeeping of Journal Entries**

#### **aGeneral**

*The accounting law contains the following specifications concerning the safekeeping of journal entries: The simplified balance sheet, the supporting general ledger, the analytical review, and the inventories need to be kept for 10 years. The journal entries must be kept until the right to assess tax lapses (presently this period is 5 years). The safekeeping system of journal entries must be such that the journal entries may be inquired upon.*

#### **bMoving Documents**

*Journal entries may be taken away from their place of safekeeping only after issuing a receipt. The Common Representative of the condominium will prepare, for approval by the General Assembly, the yearly budget proposal based on the accounting rules. The results will be approved by the Auditing Committee or the Executive Committee. A final settlement needs to be prepared for the funds management of the condominium, as specified in*

*Appendix no. 8. This needs to be divided among the owners of the condominium according to their proprietary ratio and with content detailed in Appendix no. 9. The settlement for the reviewed period needs to be done by owner and the closing outstanding and/or surplus amount must be indicated (Appendix no. 10). The charges for central heating and hot water supply are settled at the end of the heating period, April 30th, and not at the end of the fiscal year. For this purpose, the budget according to Appendix no. 11, the charge settlement according to Appendix no. 12, and the individual charge settlement must be prepared.*

### ***5 Journal Entries Used With the Sale of Products, Provision of Services and With Other Incomes and Expenditures***

*In cases of selling a product and providing services, the form of advices to be used is specified in articles 43 and 70 of the 1992 LXXIV VAT Act. According to the law, an invoice, a simplified invoice, a document substituting an invoice or a receipt must be filled out when selling a product or providing a service. The contents of an invoice, simplified invoice, document substituting an invoice or a receipt are specified in articles 13, 16 to 18, and 20 of the VAT Act. An invoice must be given when a product is sold or a service is provided and the payment is not done using cash. A simplified invoice must be given on the customer's request in case of a sale or provision of a service when the payment is done in cash or with an instrument substituting cash. A substitute invoice is given if the counter value of the sale or service is not defined in financial terms. A receipt is issued by every sale or provision of service if the customer does not ask for a simplified invoice. A standard journal entry or a special advice suitable for tax authority identification may be given as an invoice, simplified invoice or as a receipt, provided it has the minimum contents required by law. A journal entry suitable for tax authority identification may be given as a document substituting an invoice provided it possesses the contents required by law. The following standard forms may be used as invoices, simplified invoices and receipts.*

<i>Invoice (to be used with a typewriter)</i>	<i>MSZ 3492 89</i>
<i>Block of Invoices (to be filled out by hand)</i>	<i>MSZ 16114 89</i>
<i>Cash Payment Block (for simplified invoices)</i>	<i>MSZ 16114 90</i>
<i>Block of Receipts</i>	<i>MSZ 16133 90</i>

*For every other cash income and cash expenditure apart from sales and provision of services: cashier's income journal entry or MSZ 16116 87 cashier's expenditure advice must be filled out.*

## **Appendix A**

### **LAW DECREE NO. 11 OF 1977)**

[On the establishment of a block of freehold flats.<sup>2</sup>]

#### **Paragraph 1**

(1) Agreement of the co-owners in the form of a Foundation Deed and registration of the apartment building property in the Land Register is necessary for founding a property consisting of a block of freehold flats.

(2) A block of freehold flats can be founded on the basis of a building built for this purpose or an existing building if it consists of at least two apartments.

(3) In the case of a block of freehold flats, specified parts of the building are in the separate, individual ownership of the owners and other parts of it are in the common ownership of the co-owners.

#### **Paragraph 2**

Co-ownership property can also be transformed into a block of freehold flats by the order of a court at the request of any co-owner. In this case, the Foundation Deed is substituted by the verdict of the court.

### **FOUNDATION DEED**

#### **Paragraph 3**

The contents of the Foundation Deed are established according to the common interests of the co-owners, but the Foundation Deed can only differ from this Law Decree if the difference is permitted by this Decree.

#### **Paragraph 4**

(1) The following information should be contained in the Foundation Deed:

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Date of promulgation: May 12, 1977.

- (a) Agreement of the co-owners concerning the foundation of a block of freehold flats.
  - (b) Denomination of the co-owners and the topographical lot number of the real estate.
  - (c) List of the commonly owned parts of the building.
  - (d) Specification of the flats and the non-residential premises belonging to specific owners.
  - (e) Ownership share of the co-owners in the commonly owned property of building and land, and the fact that the land is owned by the State or other social organization or cooperative and utilization rights are due to the co-owners if that is the case.
  - (f) Other facts and data required in provisions relating to the registration of real estate.
- (2) The following issues should be stipulated in the Foundation Deed:
- (a) Manner of fulfillment of obligations in connection with renovation and maintenance of the commonly owned parts of the building, payment of other common expenses, and apportionment of costs among the co-owners.
  - (b) Designation of persons or bodies administering the affairs of the building, scope of their authority, and their rights and liabilities.
  - (c) Convening and holding a General Assembly of the co-owners, proceedings of the assembly, and method of decision-making at the assembly.
  - (d) Procedures followed by the common representative and the Executive Committee, especially with regard to accountability.

### **Paragraph 5**

- (1) The Foundation Deed should be prepared in the form of an official document or a private contract signed by a lawyer. If any state organ, social organization, or organ of a

cooperative holds an interest in the property, the Foundation Deed can be signed by the legal advisor of the organization.

(2) It is not necessary to prepare the Foundation Deed in the form of an official document or private contract signed by a lawyer if it is prepared by a co-owner who has a degree in law.

### **Paragraph 6**

Agreement of all co-owners is necessary to modify the Foundation Deed; any modification should be reported to the Land Register.

## **APARTMENT BUILDING PROPERTY**

### **Paragraph 7**

(1) Flats located in the building--with the exception of the caretaker's flat--are in the individual ownership of the owners. It may also be stipulated in the Foundation Deed that the non-residential premises are in individual ownership.

(2) The parts of the apartment building that are not individually owned are in the common ownership of the co-owners. The land is also in the common ownership of the co-owners except in cases where the co-owners have only utilization rights in the land.

### **Paragraph 8**

(1) With regard to the flats and non-residential premises in individual ownership, rights of possession, utilization, and disposal are due to the owners. An owner can carry out construction work in his flat or in the non-residential premises in individual ownership, but if this work affects the rights or rightful interests of the other co-owners, their approval should be obtained.

(2) An individually owned flat or non-residential premises in individual ownership, together with its share of the parts in common ownership, form a separate parcel of real estate.

(3) The owners have no right of preemption nor a lease option with regard to flats or non-residential premises in the building if the Foundation Deed was prepared after this Decree took effect. Otherwise, the Foundation Deed may contain different provisions in this respect.



**Paragraph 9**

All of the co-owners have the right to use the land of the apartment building and the commonly owned premises within the limits determined by the provisions of law, by regulation of the authorities, and by decisions of the General Assembly; however, these rights cannot be exercised against the rightful interests of the other co-owners.

**Paragraph 10**

(1) The following applies to liabilities of the co-owners in connection with renovation and maintenance:

- (a) In the case of individually owned flats or other individually owned premises, expenses of renovation and maintenance are the responsibility of the co-owner.
- (b) With regard to the common owned parts of the building, expenses of renovation and maintenance are charged to all of the co-owners in proportion to their share of ownership, unless the Foundation Deed stipulates otherwise.

(2) The other common expenses in connection with the operation and administration of the apartment building are charged to all of the co-owners in proportion to their share of ownership, unless the Foundation Deed stipulates otherwise.

**Paragraph 11<sup>3</sup>**

(1) A renewal fund should be established by the co-owners to cover the cost of renovating the commonly owned parts of the apartment building. This fund need not be established if the apartment building contains less than six flats.

(2) The amount of the renovation fund is determined by the General Assembly, within the bounds determined by a provision of law issued by the Minister of Finance.

**Paragraph 12**

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[Editor's note - The provisions of Paragraph 11 were declared unconstitutional by the Constitutional Court of Hungary in 1991.]

Issues not regulated by this Law Decree should be settled in accordance with the provisions of the Civil Code.

## **ADMINISTRATION OF THE AFFAIRS OF THE BUILDING ASSOCIATION**

### **Paragraph 13**

(1) Decisions regarding the affairs of the building association are made by the co-owners at a General Assembly or by the common representative.

(2) The election of an Executive Committee instead of a common representative may be stipulated in the Foundation Deed.

(3) The election of an account Auditing Committee for managing the finances of the building association may also be stipulated in the Foundation Deed.

### **Paragraph 14**

Decisions regarding the following issues fall within the competence of the General Assembly:

- (a) Renovation of the commonly owned parts of the building.
- (b) Maintenance work and other obligations with regard to the building, within the limits stipulated in the Foundation Deed.
- (c) Possession, utilization, and development of the commonly owned parts of the building and allocation of any common revenues, within the limits determined by provisions of law and the regulations of authorities.
- (d) Election of the common representative or the Executive Committee, their compensation, their recall, and acceptance of their resignation.
- (e) Election of the members of the account Auditing Committee, their compensation, their recall, and acceptance of their resignation.
- (f) Acceptance of the budget and statement of accounts submitted by the common representative or the Executive Committee.

- (g) Every other matter designated to be within the competence of the General Assembly by the Foundation Deed.

### **Paragraph 15**

(1) The General Assembly is convened as circumstances may require but at least once a year, by the common representative or the Executive Committee. Any co-owner may request the convening of a General Assembly for any importance purpose. In case a request is refused, a General Assembly may be convened by the person commissioned for this task by one-third of the co-owners.

(2) A general meeting may be convened and decisions made if at least two-thirds of the voting interests are present, calculated in accordance with the ownership shares. If a quorum is not present, the assembly may be adjourned and reconvened. At the reconvened assembly, decisions may be made regardless of the share of voting interests present.

(3) The General Assembly makes decisions by majority vote. Voting interests are allocated to co-owners in accordance with their share of ownership. In case of a tie vote, the vote of the chairman elected by the meeting is decisive.

### **Paragraph 16**

If a decision of the General Assembly is contrary to law or the Foundation Deed, or leads to considerable grievance of the interests of the minority, any owner may commence a legal action for invalidation of the decision within sixty days of when it is made. The legal action does not interfere with the execution of the decision unless the court determines that suspension of the execution of the decision is reasonable.

### **Paragraph 17**

(1) The common representative or the Executive Committee makes decisions on issues not falling within the competence of the General Assembly. The Executive Committee makes decision by majority vote of its members.

(2) Both the common representative and the Executive Committee are obliged to account to the General Assembly.

(3) The account Auditing Committee can check the administrative work of the common representative or the Executive Committee at any time. If the account Auditing

Committee finds that the manner of administration of the common representative or the Executive Committee violates the interests of the building association, this committee can convene a General Assembly and can propose appropriate measures.

(4) The common representative, the chairman of the Executive Committee, and the members of the account Auditing Committee can be recalled at any time by the General Assembly.

### **Paragraph 18**

(1) The common representative or the chairman of the Executive Committee represents the building association against third parties or before a court, the authorities, or other bodies.

(2) In the course of administering the affairs of the building, the common representative or the chairman of the Executive Committee can acquire title and can assume obligations on behalf of the other co-owners.

(3) Constraints on the authority conferred in Paragraph 18 (1) and (2) are ineffective against third parties.

### **Paragraph 19**

The common representative or the chairman of the Executive Committee represents the building association in legal action commenced against a co-owner who is not fulfilling his liabilities as stipulated in the Foundation Deed or by decision of the General Assembly, and in actions commenced by a co-owner challenging a decision made by the General Assembly.

### **Paragraph 20**

If the apartment building does not contain more than six individually owned flats, the provisions of the Civil Code relating to co-ownership of property should be applied instead of the provisions listed above in Paragraphs 13 through 19. In such cases, the issues stated in Paragraph 4(2)(b)-(d) need not be included in the Foundation Deed.

## **MISCELLANEOUS AND VALIDATION PROVISIONS**

### **Paragraph 21**

Agreement of all the co-owners is needed for liquidation of the apartment building property. In such case, the liquidation should be reported to the Land Register.

### **Paragraph 22**

The provisions of this Law Decree also apply to blocks of holiday houses, blocks of garages, and to other buildings parts of which are individually owned.

### **Paragraph 23**

Provisions concerning the dimensions of flats and holiday houses which are permissible for Hungarian citizens and regulating the size of their residential and holiday house property and non-residential premises should be applied to apartment buildings as well.

### **Paragraph 24**

(1) This Law Decree shall come into force on 1 July 1977. Simultaneously with the coming into force of this Decree, the Act No. XII/1924, Paragraph 48, Section 2 of the Decree of the Council of Ministers No. 31/1971, and Law Decree No 4630/1948 (IV.25.) shall cease to have effect.

(2) This Decree shall be applicable to apartment buildings built before this Decree takes effect. However, absence of registration of an apartment building in the Land Register does not affect the existence of these apartment buildings.

(3) If upon the effective date of this Decree any part of an existing Foundation Deed conflicts with a provision of this Decree from which a party cannot deviate, the part of the provision in the Foundation Deed in question shall be deemed replaced by the appropriate provision in this Decree.

(4) Provisions of this Decree do not modify the force of provisions relating to:

(a) Home building and home maintenance cooperatives.

- (b) Organization administration, financial supporting, technical planning, construction, and technical control of condominium containing apartment buildings.

**Appendix B****MODEL FOUNDATION DEED**

(Declaration Establishing A Plan For Condominium Ownership  
In A Condominium Founded By A Municipality)

**ARTICLE I - SUBMISSION OF PROPERTY**

Para. 1.1. The Municipality of \_\_\_\_\_ (hereinafter "Founder") owns certain real property located at \_\_\_\_\_ [street and number], registered in the Land Office as Ownership Form No. \_\_\_\_\_, under Plot Registration No. \_\_\_\_\_ (hereinafter "the Property"). There has been constructed upon the Property a structure consisting of a number of residential flats and commercial premises, together with certain common areas and facilities that are not part of any residential flat or commercial premises.

Para. 1.2. Founder hereby submits the Property to create a plan of condominium ownership of the Property, in accordance with Act IV of 1959, the Civil Code of the Republic of Hungary, Para. 139 through 149; and Law Decree No. 11 of 1977. Each of the individual residential flats and the commercial premises (hereinafter "the Units") shall be conveyed in freehold ownership. The common areas and facilities which are not part of any Unit (hereinafter "Common Property") shall be jointly owned by the owners of the Units in accordance with each Unit's proportionate ownership interest in the Property. The proportionate ownership interest shall be the same as the percentage share given for each Unit in Para. 1.3, below.

Para. 1.3. Listed below are each of the Units in the Property; and, for each Unit, the number of square meters of floor space and that Unit's percentage share of the total number of square meters of floor space of all of the Units combined.

UNIT NUMBER	SQUARE METERS	PERCENTAGE SHARE/ OWNERSHIP INTEREST
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## **ARTICLE II - REGISTRATION OF CONDOMINIUM**

Para. 2.1. To establish the Condominium, this Foundation Deed, together with a description of each of the Units in the Condominium, shall be registered in the Land Register under the denomination "Condominium," as part of the real estate registration under Plot Registration No.\_\_\_\_\_.

Para. 2.2. A separate registration sheet shall be opened for each of the Units subject to private ownership, as Condominium Unit No.\_\_\_\_\_, Unit No.\_\_\_\_ through \_\_\_\_\_. The description of each Unit shall include the number, floor and door designations, and the number of square meters, number of rooms and any other premises that are part of the Unit, Unit's percentage share or ownership interest. As each Unit is transferred from the Founder and upon each resale thereafter, the name of each owner of each Unit shall be listed on the separate registration sheet for that Unit.

## **ARTICLE III - PLAN OF OWNERSHIP**

Para. 3.1. The separately designated Units consist of the spaces or areas contained within the perimeter walls of each Unit. The walls and partitions that are contained within a Unit, and the inner decorated or finished surfaces of the perimeter walls, floors, and ceilings shall be deemed to be part of the Unit in which they are contained.

Para. 3.2. Ownership of each Unit shall include ownership of an appurtenant undivided interest in the Common Property, in the proportionate share given for that Unit in Para. 1.3. The Common Property shall include all parts of the building and property of the Condominium that are not part of or within a Unit, including but not limited to the land, roof, main walls, slabs, elevator, elevator shaft, corridors, staircases, lobbies, halls, attics, cellars, parking spaces, storage spaces, community facilities, heat and hot water equipment, trees, pavement, balconies, pipes, wires, conduits, air conditioners and ducts, and public utility lines.

Para. 3.3. The outer surfaces of the perimeter walls, floors, and ceilings surrounding the respective Units; and any pipes, wires, conduits, or other utility lines running through the respective Units that are utilized for or serve more than one Unit shall be deemed to be Common Property and not part of any Unit.

Para. 3.4. Each Unit, together with its appurtenant undivided interest in the Common Property, shall constitute an individual parcel of real estate, and shall form a unity which may only be alienated together. Subject only to that limitation and the laws and regulations applicable



to all individually owned real property, each Unit may be sold or otherwise freely disposed of by its owner. Each owner may possess and use his or her individual property, whether for residential or non-residential purposes, in any manner not inconsistent with law or with this Foundation Deed.

#### **ARTICLE IV - ADMINISTRATION OF THE CONDOMINIUM**

Para. 4.1. Upon becoming an owner of a Unit, a person automatically shall become a member of the Condominium's Unit Owners' Association (the "Association"), and shall remain a member of the Association until such time as ownership ceases.

Para. 4.2. All agreements and decisions made by the Association in accordance with the voting percentages established by law and in this Foundation Deed shall be deemed to be binding on all owners of Units.

Para. 4.3. For matters related to the Condominium, decisions that require a vote of the Unit owners shall be made at a General Assembly of the owners. At the first General Assembly held after the establishment of the Condominium, the owners shall elect a Common Representative who shall be authorized to act on behalf of the Condominium and the Unit owners in the operation and management of the Condominium, except for matters for which a vote of the owners is deemed to be necessary by law or by this Foundation Deed.

Para. 4.4. In addition to or instead of a Common Representative, the Unit owners may elect and delegate the operation and management of the Condominium to an Executive Committee which shall meet periodically but not less than four times during a calendar year. The term of office of the members of the Executive Committee shall be determined by the owners at a General Assembly. The person who receives the highest number of votes in an election of the Executive Committee shall serve as the chairman and presiding officer of the Executive Committee.

Para. 4.5. The Unit Owners may elect an Account Auditing Committee to review the accounts of the Association and to advise the Common Representative or Executive Committee on the financial affairs of the Association. If there is an Account Auditing Committee, it shall report to the General Assembly at least once a year on the financial status of the Association.

Para. 4.6. A General Assembly shall be convened at least once each year. The Common Representative or chairman of the Executive Committee may convene a special General Assembly whenever it is deemed to be necessary, or upon the request of any owner. The Common Representative or chairman of the Executive Committee must convene a General Assembly within twenty-one days of receiving a request from the owners of Units comprising one-third or more of the ownership interests.

Para. 4.7. Notice of the convening of eight General Assembly shall be given in writing, delivered in person or by first class mail, at least eight but not more than thirty days before the

date of the meeting. Such notice must include the date, time, and place of the General Assembly, and an agenda of matters to be considered there.

Para. 4.8. To convene a General Assembly, a quorum of at least two-third of the ownership interests must be present in person or by proxy. If there is no quorum, the General Assembly may be adjourned and reconvened at any time thereafter. At the reconvened General Assembly, the owners may decide the matters included on the agenda of the first scheduled meeting, regardless of whether or not a quorum of two-thirds of the ownership interests is present.

Para. 4.9. Decisions of the General Assembly shall be made by majority vote; that is, the vote of more than fifty percent (50 %) of the ownership interests present and voting at the General Assembly, except where a higher number is required by law or by this Foundation Deed. In case of a tie vote, the vote of the presiding officer shall be decisive.

Para. 4.10. A unanimous vote of the ownership interests must be had for the following decisions: (a) modification of the Foundation Deed; (b) dissolution of the Condominium and sale of the entire Condominium property; (c) pledging of the entire Condominium property as security for a loan or mortgage.

Para. 4.11. Each Unit shall be allocated a number of votes in accordance with its proportionate ownership interest, as given in Para. 1.3. The votes appertaining to any Unit cannot be divided. For any Unit for which there is more than one owner, if only one co-owner is present at a General Assembly that person shall be entitled to cast the votes of the entire ownership interest. If more than one co-owner is present, the votes shall be cast only in accordance with the unanimous agreement of the co-owners, which consent shall be presumed to have been given if any one of the co-owners purports to cast the votes without protest being made to the presiding officer by any other co-owner.

Para. 4.12. Votes may be cast by proxy presented to the presiding officer of the General Assembly prior to the commencement of the meeting. A proxy must be in writing and dated, and must be executed by or on behalf of all co-owners of the Unit for which the votes are to be cast. A proxy shall be revocable only upon actual notice the presiding officer of the General Assembly, and shall terminate automatically upon the adjournment of the first General Assembly held on or after the date of the proxy.

Para. 4.13. Decisions and minutes of the General Assembly must be put in writing and kept among the records of the Association. The minutes of the previous General Assembly must be approved at the next General Assembly.

## **ARTICLE V - CONTRIBUTION TO COMMON EXPENSES**

Para. 5.1. The Association shall be responsible for operating and managing the Condominium and for maintaining, repairing, renovating, or improving the Common Property, the costs of which shall be deemed to be Common Expenses. The Unit owners shall be liable to pay to the Association their share of the Common Expenses, in accordance with their proportionate ownership interest as given in Para. 1.3.

Para. 5.2. The amount of the assessment for Common Expenses shall be determined in a budget to be adopted by the owners at a General Assembly. The Common Representative or Executive Committee shall prepare a proposed budget and submit it to the owners at the same time that notice of the General Assembly is given.

Para. 5.3. In the event that the assessment is inadequate because of unanticipated Common Expenses, a special assessment may be made upon the approval of the owners at a General Assembly. A special assessment shall be paid by the Unit owners in accordance with their respective proportionate ownership interests, or on such other terms approved by vote of the owners.

Para. 5.4. A renovation fund may be established, the amount of which shall be determined as part of the budget to be adopted by the General Assembly. All owners shall contribute to the renovation fund as a portion of their regular condominium assessment, in proportion to their ownership interest.

Para. 5.5. No owner of any Unit shall be exempt from liability for contribution toward the Common Expenses by waiver of the right to use and enjoyment of any of the Common Property or facilities, or by the abandonment of the Unit, or otherwise.

## **ARTICLE VI - DEFAULT IN PAYMENT OF ASSESSMENTS**

Para. 6.1. Nonpayment of any regular or special assessment or portion thereof by any owner for more than thirty (30) days after any such payment is due shall constitute a default. Interest, in an amount to be set from time to time by the Common Representative or Executive Committee, but not higher than the highest legal rate, shall be charged by the Association. Such interest is payable to the Association by the defaulting owner for any assessment in default.

Para. 6.2. Suit to recover a money judgment for assessments in default and interest due thereon shall be maintainable by the Association or the Common Representative against the owner(s) of a Unit for which the assessment is in default.

## **ARTICLE VII - RESTRICTIONS ON USE; CONSTRUCTION**

Para. 7.1. Each Unit Owner is entitled to use the Common Property within the Condominium, subject to any restrictions in the law or regulations of the authorities, in this Foundation Deed, or in any Bylaws or Rules and Regulations of the Association. No owner may exercise the right to use the Common Property in such a manner as to harm the rights or interests of the other owners.

Para. 7.2. An owner of a commercial Unit is entitled to use such Unit subject to any restrictions in the law or regulations of the authorities, in this Foundation Deed, or in any Bylaws or Rules and Regulations of the Association. No owner may use a commercial Unit in such a manner as to harm the rights or interests of the other owners.

Para. 7.3. An owner of a residential Unit is entitled to use such Unit as a dwelling for the owner, his or her family, tenants, or guests. An owner of a residential Unit shall have the right to lease the Unit provided the tenant agrees that his or her use of the premises will be subject to the restrictions in any Bylaws or Rules and Regulations of the Association.

Para. 7.4. The owner of a Unit may perform construction in or renovation of the Unit, so long as such work is performed solely at the expense and risk of the owner, and in accordance with any requirements of the municipal authorities, and of this Foundation Deed, and of any Bylaws or Rules and Regulations of the Association. The owner is responsible for maintaining the Unit in good repair and is liable for any damage caused by failure to do so.

Para. 7.5. Ordinary maintenance or repairs of the Common Property shall be performed upon the determination of the Common Representative or the Executive Committee or the owners at the General Assembly that such maintenance or repairs are necessary for the upkeep of the Property. Partial or total renovation, additions, improvements, or modernization of the Common Property may be undertaken only upon a majority vote by the owners at a General Assembly.

Para. 7.6. Representatives of the Condominium shall be permitted to enter a Unit after reasonable notice to the owner, in order to make repairs, or perform maintenance, or to renovate or replace Common Property within the Unit.

## **ARTICLE VIII - ENFORCEMENT; BYLAWS; RULES AND REGULATIONS**

Para. 8.1. Administration of the Condominium shall be in accordance with the provisions of this Foundation Deed and any Bylaws or Rules and Regulations of the Association which shall be adopted by vote of the owners at a General Assembly.

Para. 8.2. Each owner, tenant, or occupant of a Unit shall comply with the provisions of this Foundation Deed and any Bylaws or Rules and Regulations of the Association, and with duly adopted decisions and resolutions of the Association. Failure to comply with any such provisions, decisions, or resolutions shall be grounds for an action brought in the name of the Association or the Common Representative to recover damages or to seek injunctive relief against the owner in cases where the owner is in violation. In cases where a tenant or other occupant of the Unit is in violation, the Association may bring an action against the tenant or other occupant, or against the owner of the applicable Unit, or both, at the Association's option.

Para. 8.3 If a decision of the General Assembly or the Association or its representatives is contrary to law or to this Foundation Deed, or leads to considerable grievance of the interests of a minority of the owners, any owner may commence a legal action against the Association for invalidation of the decision within sixty days after the decision is made. The legal action does not suspend the execution of the action unless the court determines that suspension of the execution of the decision is reasonable. The Common Representative or the chairman of the Executive Committee shall represent the Association in actions commenced against it by an owner.

## **ARTICLE IX - REVOCATION OR AMENDMENT**

Para. 9.1. This Foundation Deed may be revoked or amended only upon unanimous agreement of the Unit owners.

## Appendix C

### MODEL BYLAWS BYLAWS OF \_\_\_\_\_ CONDOMINIUM

#### ARTICLE I - GENERAL PROVISIONS

**Section One: Ownership.** The Condominium located at \_\_\_\_\_  
\_\_\_\_\_ in the Municipality of \_\_\_\_\_, known as \_\_\_\_\_  
Condominium, has been submitted according to the provisions of law establishing condominium  
ownership.

**Section Two: Applicability of Bylaws.** The provisions of these Bylaws are applicable  
to all present or future owners, their tenants, or any other persons who use the facilities of the  
Condominium.

#### ARTICLE II - ADMINISTRATION

**Section One: Unit Owners' Association.** The owners of the Units in the Condominium  
shall constitute the members of the Condominium Unit Owners' Association. The Association  
shall be responsible for administering the Condominium, managing the common property of the  
Condominium, approving the annual budget, and establishing and collecting monthly assessments  
from the Unit owners. The Association may delegate the management of the Condominium to  
an Executive Committee and/or to a Common Representative or another individual or firm under  
an agreement setting out the duties, obligations, compensation, and procedures for removal of a  
managing agent.

**Section Two: Annual General Assemblies.** The Association shall meet at least once  
each calendar year in a General Assembly. The annual General Assembly shall be held on the  
\_\_\_\_ [first or second or third, etc.] \_\_\_\_ [Monday or Tuesday or Wednesday, etc.] of \_\_\_\_\_  
[month] of each year. At such General Assembly, there shall be elected an Executive Committee.  
The owners may also transact such other business of the Association as may properly come  
before them.

**Section Three: Special General Assemblies.** The president of the Executive Committee  
shall call a special General Assembly of the owners as directed by resolution of the Executive  
Committee or on a petition signed by one-third or more of the owners.

**Section Four: Notice of General Assemblies.** The secretary shall cause a notice of each annual or special General Assembly to be delivered to each Unit owner by mail or in person. At least eight but not more than thirty days prior to such General Assembly. The notice will state the time, date, place, and purpose of the General Assembly.

**Section Five: Adjourned General Assemblies.** If any General Assembly of owners cannot be convened because a quorum is not present, the owners who are present may adjourn the meeting to any time after the time the original General Assembly was called.

**Section Six: Order of Business.** The order of business at all General Assemblies of the Association shall be as follows:

- (a) Roll call;
- (b) Proof of notice of General Assembly or waiver of notice;
- (c) Reading of minutes of preceding General Assembly;
- (d) Reports of officers;
- (e) Reports of committees;
- (f) Election of inspectors of election;
- (g) Election of members of Executive Committee;
- (h) Unfinished business; and
- (I) New business.

### **ARTICLE III - VOTING; MAJORITY; QUORUM; PROXIES**

**Section One: Voting.** Voting shall be in accordance with the ownership interests allocated to each unit in the Foundation Deed.

**Section Two: Majority.** As used in these Bylaws, the term "majority" or "majority of owners" shall mean owners holding more than 50 percent of the ownership interests allocated in the Foundation Deed. Unless otherwise required by law or the Foundation Deed, decisions of the Association shall be made by majority vote.

**Section Three: Quorum.** Except as otherwise provided in these Bylaws, the presence of at least two-thirds of the ownership interests, in person or by proxy, shall constitute a quorum.

**Section Four: Proxy Voting.** Votes may be cast in person or by proxy. Proxies must be signed by the owner for whom the votes will be cast and filed with the presiding officer before the beginning of each General Assembly where the proxy is to be exercised.



## **ARTICLE IV - EXECUTIVE COMMITTEE**

**Section One: Number and Qualification.** If approved by the owners at a General Assembly, the Association's affairs may be governed by an Executive Committee composed of \_\_\_\_ [odd number not less than three] persons, all of whom must be owners of Units in the Condominium, to be elected by the owners at a General Assembly.

**Section Two: Powers and Duties.** The Executive Committee shall have the powers and duties necessary for the administration of the Association's affairs and may do all such acts and things as are not by law, the Foundation Deed, or these Bylaws directed to be exercised and done by the owners.

**Section Three: Other Duties.** In addition to duties imposed by these Bylaws or by resolutions of the Association, the Executive Committee shall be responsible for administering the following:

- (a) Care, upkeep, and surveillance of the common areas and facilities of the property.
- (b) Collection of monthly assessments from the owners.
- (c) Designation and dismissal of the personnel necessary for the maintenance and operation of the Condominium and the common areas and facilities.

**Section Four: Common Representative or Managing Agent.** In addition to the Executive Committee, the association may also employ a Common Representative or managing agent to perform such duties and services as the Executive Committee shall authorize, including but not limited to the duties listed in Section Three of this article.

**Section Five: Election and Term of Office.** At the first General Assembly, the Association shall determine the length of the term which the members of the Executive Committee shall serve. At the expiration of the initial term of each respective member of the Executive Committee, a successor shall be elected.

**Section Six: Vacancies.** Vacancies in the Executive Committee caused by any reason other than the removal of a member by a vote of the Association shall be filled by vote of the majority of the remaining members, even though they may constitute less than a quorum; and

each person so elected shall be a member until a successor is elected at the Association's next General Assembly.

**Section Seven: Removal.** At any regular or special meeting duly called, any one or more of the members of the Executive Committee may be removed with or without cause by a majority of the Unit owners, and a successor may then and there be elected to fill the vacancy thus created. Any member whose removal has been proposed by the owners shall be given an opportunity to be heard at the meeting.

**Section Eight: Organizational Meeting.** The first meeting of the newly elected Executive Committee shall be held within ten days of election at such place as shall be fixed by the members.

**Section Nine: Regular Meetings.** Regular meetings of the Executive Committee may be held at such time and place as shall be determined, from time to time, by a majority of the members, but at least four such meetings shall be held during each calendar year.

**Section Ten: Special Meetings.** Special meetings of the Executive Committee may be called by the president on three days' notice to each member, which notice shall state the time, place, and purpose of the meeting. Special meetings of the Executive Committee shall be called by the president or secretary in like manner and on like notice on the written request of at least three members.

**Section Eleven: Quorum.** At all meetings of the Executive Committee, a majority of the members shall constitute a quorum for the transaction of business, and the acts of the quorum shall be the acts of the Executive Committee. If, at any meeting of the Executive Committee, there be less than a quorum present, the members present may adjourn the meeting from time to time. At any such meeting, any business that might have been transacted at the meeting as originally called may be transacted without further notice.

## **ARTICLE V - COMMON REPRESENTATIVE**

**Section One: Selection of Common Representative.** At any General Assembly of the Association, the owners may by majority vote select a Common Representative who shall be authorized to act on behalf of the Association, except for matters for which a vote of the owners is deemed to be necessary by law or by the Foundation Deed.

**Section Two: Duties and Compensation.** The duties and compensation of the Common Representative shall be determined by the owners at a General Assembly if there is no elected Executive Committee. If there is an elected Executive Committee, the Executive Committee shall determine the duties and compensation of the Common Representative.

## **ARTICLE VI - ACCOUNT AUDITING COMMITTEE**

**Selection and Responsibilities.** The Unit owners may elect an Account Auditing Committee to review the accounts of the Association and to advise the Association and the Executive Committee and/or the Common Representative on the financial affairs of the Association. If there is an Account Auditing Committee, it shall report to the General Assembly at least once a year on the financial status of the Association.

## **ARTICLE VII - OFFICERS**

**Section One: Designation.** The principal officers of the Association shall be a president, a vice-president, a secretary, and a treasurer, all of whom shall be members of the Executive Committee. The offices of secretary and treasurer may be filled by the same person.

**Section Two: Election.** The president shall be the person who receives the highest number of votes in an election of the Executive Committee. The other officers of the Association shall be elected annually by the Executive Committee at the organization meeting of each new Executive Committee and shall hold office at the pleasure of the Committee.

**Section Three: Removal.** On an affirmative vote of a majority of the members of the Executive Committee, any officer may be removed, either with or without cause, and a successor elected at any regular meeting of the Executive Committee, or at any special meeting of the Executive Committee called for such purpose.

**Section Four: President.** The president shall be the chief executive officer of the Association. The president shall preside at all General Assemblies of the Association and of the Executive Committee. The president shall have all of the general powers and duties that are usually vested in the office of president of an association, including but not limited to the power to appoint committees from among the Unit owners from time to time, as the president may decide is appropriate, to assist in the conduct of the Association's affairs.

**Section Five: Vice-President.** The vice-president shall take the place of the president and shall perform his or her duties whenever the president shall be absent or unable to act. If neither the president nor the vice-president is able to act, the Executive Committee shall appoint some other member of the Executive Committee to do so on an interim basis. The vice-president shall also perform such other duties as shall from time to time be requested by the Executive Committee.

**Section Six: Secretary.** The secretary shall keep the minutes of all meetings of the Executive Committee and the minutes of all General Assemblies of the Association; shall have charge of such books and papers as the Executive Committee may direct; and shall, in general, perform all the duties incident to the office of secretary.

**Section Seven: Treasurer.** The treasurer shall have responsibility for Association funds and securities and shall be responsible for keeping full and accurate accounts of all receipts and disbursements in books belonging to the Association. If there is an Account Auditing Committee, the Committee shall advise and assist in carrying out the duties of the treasurer.

## **ARTICLE VIII - OBLIGATIONS OF OWNERS**

**Section One: Assessments.** All Unit owners shall be obligated to pay regular and special assessments imposed by the Association to meet all common expenses of the Condominium. Assessments shall be levied in accordance with the ownership interests allocated to each Unit in the Foundation Deed. Regular assessments shall be paid in accordance with procedures adopted by the Executive Committee. Special assessments shall be paid in an amount and manner approved by the Unit owners at a General Assembly. Regular assessments may include payments to a general operating fund, as well as payments to a renovation fund if such a renovation fund is approved by the owners at a General Assembly.

**Section Two: Maintenance and Repair.** Every owner is responsible for maintaining the Unit in good repair and is liable for any damage caused by failure to do so. A Unit owner shall reimburse the Association for any expenditures incurred in repairing or replacing any common property or facility damaged through such owner's fault.

**Section Three: Structural Changes in Units.** A Unit owner shall not make structural modifications or alterations in a Unit without first notifying and receiving the permission of the Association in writing. Such notification and permission will be made through the management agent, if any; or through the president of the Executive Committee, if no management agent is employed. Such changes, if approved, shall be made at the sole risk and expense of the owner.

**Section Four: Use of Common Areas and Facilities.** Each Unit Owner is entitled to use the Common Property of the Condominium, so long as such use does not harm the rights or interests of the other owners. An owner shall not place or cause to be placed in the lobbies, vestibules, stairways, elevators, and other common property or facilities, any furniture, packages, or objects of any kind, except for refuse meant for disposal, which must be placed in containers.

**Section Five: Right of Entry.** Representatives of the Condominium shall be permitted to enter a Unit after reasonable notice to the owner, in order to make repairs, perform maintenance, or renovate or replace Common Property within the Unit. An owner shall allow the managing agent or any other person authorized by the Executive Committee or the Association to enter the owner's Unit in case of any emergency originating in or threatening the owner's Unit or any other Unit or the Common Property, whether or not the owner is present at the time of entry.

**Section Six: Rules of Conduct.**

- (a) No resident of the project shall post any advertisements or posters of any kind in or on the Common Property, except as authorized by the Association or the Executive Committee.
- (b) Residents shall exercise care in making noise or using musical instruments, radios, television, and stereo equipment that may disturb other residents.
- (c) Hanging garments, rugs, and the like from the windows or from the balconies or facades of the Common Property is prohibited.
- (d) Throwing garbage or trash outside the disposal facilities and containers provided for that purpose is prohibited.
- (e) Residents may not install wiring for electrical or telephone installation, television antennae, machines, air conditioning units, or the like on the exterior of the building or that protrudes through the walls or the roof of the building, except as authorized by the Association or the Executive Committee.
- (f) Residents may keep ordinary household pets. The owner of a pet is responsible for ensuring that the pet does not soil or damage the Common Property or any other Unit, or cause disturbance to the other residents of the Condominium.

## ARTICLE IX - COMPLIANCE WITH BYLAWS

**Section One: Conflicts.** In case a provision of these Bylaws conflicts with any provision of applicable laws or the Foundation Deed, the law or Foundation Deed shall prevail.

**Section Two: Enforcement.** Failure to comply with these Bylaws shall be grounds for an action brought in the name of the Association or the Common Representative to recover damages or to seek injunctive relief against the owner where the owner is in violation. In cases where a tenant or other nonowner occupant of a Unit is in violation, the Association may bring an action against the occupant or the owner of the applicable Unit, or both, at the Association's option.

## ARTICLE X - AMENDMENTS TO BYLAWS

These Bylaws may be amended by majority vote of the Unit owners at a General Assembly convened for that purpose.

**Appendix D****SAMPLE CARETAKER'S AGREEMENT**

THIS AGREEMENT is entered into between the Common Representative [or Chairman of the Executive Committee] of the Condominium \_\_\_\_\_ [name and/or address of Condominium] as Employer and \_\_\_\_\_ as Employee, on \_\_\_\_\_ [date].

1. Term of Employment: Employer hires Employee beginning on \_\_\_\_\_ [date] as a full-time [or part-time] caretaker to perform the duties listed in the Appendix to this Agreement. This Agreement shall be in effect until \_\_\_\_\_ [date] [or for an indefinite period of time]. Employer may terminate this agreement at any time if Employee fails to perform the duties required in a manner that is satisfactory to Employer.

2. Compensation. Employer shall compensate Employee at the rate of \_\_\_\_\_ per month for so long as this Agreement shall remain in effect and Employee shall continue to perform the duties required in a manner that is satisfactory to Employer.

3. Hours of Work. Employee shall work during the hours of \_\_\_\_\_ to \_\_\_\_\_ on each of \_\_\_\_\_ days per week, for a total of \_\_\_\_\_ hours per week, in performing the duties required.

4. Caretaker's Flat. [If there is a caretaker's flat:] Employee may reside in the residence designated for that purpose. Use of this residence is offered to Employee as a condition of employment. Occupancy of the residence is limited to Employee and \_\_\_\_\_ [list any other permissible occupants]. Employee understands that his/her use of the residence does not constitute a rental of the premises, and Employer and Employee do not enter into a landlord and tenant relationship. At the end of the term of this agreement or at any time that this Agreement shall be terminated by either Employer or Employee, Employee agrees to vacate the premises within fifteen (15) days of the termination of employment.

5. Supervision. Employee shall work under the supervision of \_\_\_\_\_ [designate the common representative, property manager, or chairman of the Executive Committee]. Employee shall not be supervised by or perform work at the request of any individual resident of the condominium without such work being authorized by the person designated above.





6. Other. Issues concerning employment which are not specified here shall be regulated in accordance with the applicable sections of the Civil Code.

EMPLOYER:

By: \_\_\_\_\_  
Title:

EMPLOYEE:

\_\_\_\_\_

## APPENDIX TO CARETAKER'S AGREEMENT - DUTIES

### 1. General Duties:

a. Report problems or damage in the common property to \_\_\_\_\_  
[designate as common representative, property manager, or chairman of the Executive Committee]  
as soon as possible.

b. Maintain an inventory of the property, inspect fittings and furnishings of the building and keep them in working order according to the residents' needs.

c. Oversee the proper use of attic, basement, and other premises in the common property of the condominium (laundry room, storage room, etc.).

d. Answer the front door during hours when it is locked.

e. Inspect property for compliance with fire regulations.

f. Make sure that stairway and other common areas are properly lighted and replace light bulbs as needed.

g. Check gas and electric meters and monitor the fuel supply as needed.

h. Check the sweeping of chimneys.

### 2. Cleaning Tasks:

TASK	FREQUENCY
sweep hallways and stairways	every day
sweep sidewalk	every day
wash hallways and stairways	once a week
remove debris and litter	as needed
wash entrance hall	twice a week
clean the attic and cellars	twice a year
clean the garbage storeroom	once a week
clean the lift	once a week

3. Operating the Lift:

a. Employee shall operate the lift properly, observing safety provisions and technical regulations, including those regarding weight of cargo and number of persons permitted in lift.

b. Check the working order of safety fittings (electric joints, safety locks, lamps, emergency bells, switches) every day.

c. In case of mechanical failure, cut off the current and report problem immediately.

d. Instruct new residents on proper use of lift.

e. Retain duplicate of keys to the shaft-door, to safety locks, and to machine room in a safe, well-marked place.

4. Other Duties:

## **Appendix E**

### **MODEL MANAGEMENT AGREEMENT OR CONTRACT WITH THE COMMON REPRESENTATIVE**

#### **MANAGEMENT AGREEMENT**

AGREEMENT MADE \_\_\_\_\_ [date] between  
\_\_\_\_\_ [management firm or manager], with its principal  
place of business at \_\_\_\_\_ [address], hereinafter  
“the manager,” (also meaning common representative) and \_\_\_\_\_  
[association], the association of owners of the condominium located at  
\_\_\_\_\_ [address], hereinafter “the association.”

#### **SECTION ONE - APPOINTMENT OF MANAGER**

(a) Association appoints manager and manager accepts appointment, on the terms and conditions herein provided, as managing agent of the condominium known as \_\_\_\_\_, consisting of \_\_\_\_ residential and \_\_\_\_ commercial units.

(b) Manager understands that association is responsible for the operation and management of the condominium, and agrees to confer regularly with the Executive Committee of the association or its designated liaison the performance of management duties. Manager will attend all General Assembly or Executive Committee meetings as requested.

#### **SECTION TWO - INFORMATION ABOUT PROPERTY**

Manager will become familiar with the layout, construction, location, and operation of the lighting, heating, plumbing, and ventilating systems, as well as elevators, if any, and other mechanical equipment in the condominium. Copies of any warranties or service contracts shall be furnished to manager. Association shall furnish manager with a complete set of the plans and specifications of the condominium property, if available.

#### **SECTION THREE - DUTIES OF MANAGER**

[These provisions may be modified to fit the needs of the association.]

(a) Manager's authority and duties are confined to the condominium's common areas and facilities as defined in the plan of apartment ownership, and do not include management of individual units except as directed by association.

(b) Manager shall do the following:

(1) Ascertain the general condition of the property, noting any problems or conditions that require further attention, and take an inventory of all furniture, office equipment, maintenance tools, and supplies, including fuel on hand.

(2) Cause the building and grounds of the condominium to be maintained according to standards acceptable to association, including but not limited to interior and exterior cleaning, painting, plumbing, carpentry, and such other normal maintenance and repair work as may be necessary. For any one item of repair, replacement or purchase, the expense incurred shall not exceed the sum of \_\_\_\_\_ unless specifically authorized by association; except that emergency repairs necessary for the preservation and safety of life and property or required to avoid the suspension of any necessary service to the condominium may be made at the discretion of manager.

(3) Subject to approval by association, make contracts for water, electricity, gas, fuel oil, telephone, vermin extermination, and other necessary services, and place orders for equipment, tools, and supplies necessary to maintain the condominium. All such contracts and orders shall be made in the name of association and shall be subject to the limitations set forth in paragraph (b).

(4) On the basis of job specifications and wage rates previously approved by the Executive Committee, hire, pay, supervise, and discharge the personnel needed to maintain and operate the condominium. Such personnel shall be employed by the association and not the manager, and their compensation shall be an operating expense of the condominium.

(5) Maintain service requests in a work order system which shows action taken; investigate maintenance or service problems and report those of a serious nature to Executive Committee.

(6) Maintain records and accounts of association.

(7) At least 60 days before the beginning of each fiscal year, submit to the Executive Committee an operating budget of the anticipated receipts and disbursements for the new fiscal year. No expenses in connection with the maintenance and operation of the

condominium in excess of the amounts allocated in the approved budget may be incurred by manager without the prior consent of association, except in an emergency, in which case such expenditure shall be brought promptly to the attention of association.

(8) Arrange for deposit of assessments collected from members and rents collected from tenants of commercial units, and report to Executive Committee each month on the status of collections.

(9) Disburse from funds deposited in association operating account: (1) sums payable by association as operating expenses, including manager's compensation, (2) compensation due to employees of association, (3) taxes, (4) property insurance premiums, and (5) other sums as directed by the Executive Committee. Manager shall provide to Executive Committee a monthly statement of receipts and disbursements.

(10) Promptly investigate and notify Executive Committee in writing about all accidents or claims for damage, and the estimated cost of repair. When authorized by Executive Committee, obtain and keep in force insurance needed to protect association and condominium property.

(11) Comply promptly with orders or requirements regarding the premises from any government authority and notify association in writing of all orders and requirements.

(12) Working with an accountant, prepare for filing by association all forms and reports required by law in connection with unemployment insurance, workers' compensation insurance, disability benefits, Social Security benefits, and other similar taxes for association employees.

(13) Handle renting of any nonresidential units, arranging for execution of leases or permits as required.

(14) Operate and maintain the condominium according to the highest standard achievable consistent with the overall plan of association.

#### **SECTION FOUR - MANAGER'S EXPENSES**

Expenses incurred by manager in performance of duties for association shall be paid by association, except for the overhead expenses of manager's office.

## **SECTION FIVE - ASSOCIATION FUNDS**

Manager shall maintain in a bank acceptable to association a separate bank account for deposit of association's moneys, with authority to draw on them as agent of association for any payments to be made or expenses incurred by manager under this agreement.

## **SECTION SIX - COMPENSATION OF MANAGER**

Manager's compensation for services performed under this agreement shall be \_\_\_\_\_ per month [or \_\_\_\_\_ per unit per month].

**SECTION SEVEN - TERM OF AGREEMENT; TERMINATION**

(a) Unless terminated under paragraph (b) or (c) of this section, this agreement shall be in effect from \_\_\_\_\_ until \_\_\_\_\_.

(b) This agreement may be terminated by mutual consent of the parties at the end of any calendar month.

(c) If, in the opinion of either party, the other party is in breach of this agreement, the aggrieved party shall notify the other party in writing, setting forth the details of the breach. If within 30 days the offending party does not cure the breach or proceed diligently to cure the breach, the aggrieved party may terminate this agreement.

(d) On termination, the parties shall account to each other with respect to all matters outstanding as of the date of termination.

ASSOCIATION:

By: \_\_\_\_\_  
Title:

MANAGER (COMMON REPRESENTATIVE):

By: \_\_\_\_\_  
Title [if firm]:



## **Appendix F**

### **Sample Maintenance Forms**

1. Sample Work Order
2. Sample Unit Inspection Form
3. Sample Grounds Inspection Form
4. Sample Equipment Inspection Form

**Appendix G**  
**Sample Building Condition Survey**

## Appendix H

### MODEL ASSOCIATION-CONTRACTOR AGREEMENT

#### ASSOCIATION - CONTRACTOR AGREEMENT

AGREEMENT MADE \_\_\_\_\_ [date] between \_\_\_\_\_  
 \_\_\_\_\_ [Contractor], with its principal place of business at  
 \_\_\_\_\_ [address], hereinafter "Contractor", and the  
 association of owners of the \_\_\_\_\_ Condominium located at  
 \_\_\_\_\_ [address], hereinafter "Association."

#### SECTION ONE - APPOINTMENT OF CONTRACTOR

(a) Association and Contractor agree that Contractor will perform work as described in Section Two, on terms and conditions described in this agreement.

(b) Contractor understands that Association is responsible for the operation and management of the common property of the condominium, and agrees to confer regularly with the property manager, executive committee, or other designated liaison of the Association in the performance of the work.

#### SECTION TWO - DESCRIPTION OF WORK

Contractor will perform the following work under this agreement:

[Describe work to be performed under the agreement in sufficient detail to assure that the contractor understands exactly what is to be done. Attach specifications if available.]

#### SECTION THREE - CONTRACT AMOUNT AND PAYMENT SCHEDULE

Association shall pay Contractor the sum of \_\_\_\_\_  
 for the performance of the work. Payments will be scheduled as follows, subject to acceptance of the work by the Association:

% of Work Done	Completion Date	Amount
_____	_____	_____
_____	_____	_____
_____	_____	_____

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

#### **SECTION FOUR - TIME FOR PERFORMANCE**

(a) Work under the contract shall begin on \_\_\_\_\_ and shall be complete by \_\_\_\_\_.  
[Add interim stages if appropriate.]

(b) If completion is delayed for reasons beyond Contractor's control, Contractor shall provide written notice to Association explaining the reasons for the delay. If Contractor fails to give notice of reasons for the delay or the delay is not with good cause, Contractor will be in default of this agreement.

#### **SECTION FIVE - CHANGES IN THE WORK**

Association and Contractor agree that no substantial changes in the description of the work or the contract sum may be made unless agreed to in writing by both parties.

#### **SECTION SIX - CARE OF WORKSITE**

Contractor agrees to remove all construction debris and surplus material from the property upon completion of the work, and to leave the property in a neat and clean condition.

#### **SECTION SEVEN - WARRANTY**

Contractor agrees to provide a one-year warranty for the work. The warranty provides that the work is of good quality and free from defects in materials and workmanship. To make a claim under the warranty, Association must notify Contractor of such defect within one year after final payment is made.

ASSOCIATION:

By: \_\_\_\_\_  
Title:

CONTRACTOR:

By: \_\_\_\_\_  
Title [if firm]:

**Appendix I**  
**Sample Budget Worksheet**

## **Appendix J**

### **Sample Budget for Capital Repairs and Renovations**